

Am I Saving Enough for Retirement - WID

[00:00:00] Welcome back to another episode of Well It Depends. I'm your host, Derek Doyle, and this is Andrew Baron. Today's episode is being recorded on September 16th, 2026. The information in this episode is current as of the date recorded and is not intended as financial, tax, or legal advice. You should consult your tax, financial, and/or legal advisors before [00:00:30] implementing any transactions and/or strategies concerning your finances.

In today's episode, we're gonna be a- answering the question: Am I saving enough each year? With the year winding down, there's still time to make employer plan contributions. Also, you could also make individual retirement account contributions and even your own investment accounts. Today, we're breaking down how Social Security formulas work and what it means for how much you need to save on your own [00:01:00] on track for retirement.

First, we're gonna talk about employer plan contributions. Important to know, the annual amounts do change each year, so we'll just go over those quickly right now. For any of you who happen to have a 401, 403, 457, or TSP account, your annual contribution amount is \$24,500 The catch-up contributions are the [00:01:30] ones that have seen some significant changes.

For age 50 plus, you can contribute an extra 8,000, and a super catch-up for those 60 to 63, the total amount to contribute extra to that original amount is 11,250. If someone's making or already maxing out their 401 deferral, is there any alternative savings that they should maybe be considering making or any accounts that you [00:02:00] might suggest those extra savings go towards, Andrew?

A lot of it is based on where your income is. So we talk about maxing out your 401 as kind of an aspirational goal. Mm-hmm. But if you're on the lower side of the income s- spectrum, right? Let's say you're at \$50,000 a year, maxing out your 401 is a huge contribution that- Yeah ... may not even be conceivable for you, while someone that makes three, [00:02:30] \$400,000, it's actually a drop in the bucket.

It may not be anywhere near enough. So we often speak in generalities when we're talking about saving for retirement, but your income level is really important to consider what actually makes sense to you to begin with. Yeah. To

actually answer your question, for someone where we are looking to save additionally, so we're talking about a high income earner where they are maxing out their 401, 403, maybe even early in the year and they're looking for somewhere [00:03:00] else to save.

So there's the, depending on where your income falls, there's either a traditional IRA that may or may not be deductible for you, and then there is a backdoor Roth if you're not, if you're phased out of the original contribution that you may also consider, and then there's also taxable brokerage accounts.

And yes, it doesn't get the benefit that these preferred retirement savings accounts do. But it is ultimately in your best interest [00:03:30] to hit the numbers you need to hit to, you know, maintain your standard of living- Mm-hmm ... in retirement if you're a high-income earner, that you should really consider this as a third leg of your retirement.

Yeah. And we'll m- we'll go into the individual, uh, retirement account and Roth contribution limits, uh, in our next segment. But before we move on, on the other side of the expe- spectrum, uh, we talked a little bit about low-income earners. Mm-hmm. But for high-income earners, it's important to realize, especially starting in 2026, uh, with some of the new provisions that were [00:04:00] added, the certain wage levels now they're mandatory that the catch-up contributions have to be t- towards Roth.

Sure. So over a certain income limit starting in 2026 your catch-up contributions now cannot be pre-tax, they must be post-tax. So that's something on the planning side that if you are a high income earner, you wanna see how that looks at, you know, in terms of a tax consequence to yourself. Now we'll move on to the IRA and Roth IRA contribution limits.

Mm-hmm. So the annual [00:04:30] amounts for this year are \$7,500 combined, so not s- not each, it's total for both. And catch-up contributions, uh, age 50 plus are 11,100. So a total, if you're above the age of 50, you can contribute 8,600. You had mentioned the term backdoor Roth, and I know there's sometimes a lot of confusion about what that kind of means.

Could you explain in kind of simple terms what a backdoor Roth is and why [00:05:00] someone would go through that process, uh, instead of maybe contributing to it directly? Sure. So there are income phaseout levels. I don't have them memorized. Yep. But it- es- especially higher income people where you're earning hundreds of thousands of dollars a year- Mm-hmm

are going to be phased out, meaning they cannot make these contributions directly. But you can always make a non-tax deductible traditional IRA contribution. You're always allowed to do that no matter what income [00:05:30] level you are. Yeah. So the idea is you take a contribution to a traditional IRA, and then you immediately convert it.

And assuming that you have no other IRAs, which kind of brings into a calculation and it's just the conversion amount- ... right, \$7,500- Yep ... for this example. It goes from \$7,500 into a traditional, immediately converted with no taxable gain, so you can do it very efficiently. Yeah. No matter if you are, [00:06:00] even if you are high income and they're...

You're supposed to be not able to contribute, this is a way around that. Yeah Um, very, I think that's a term that gets thrown out there a lot, and a lot of people don't understand kind of the mechanics of how it works. Mm-hmm. And once again, that's why a lot of the advisors, that's part of the reason why you would hire one of us, is that we are doing a lot of those complex mechanics behind the scenes, and you don't have to worry about, like you said, if there's a complicated calculation, you could have ended up doing it incorrectly, and that could possibly hurt you [00:06:30] later on down the road.

Now kind of to the crux of the am I saving enough and why this topic was brought up in the first place is, not to bore anyone, but we're just gonna go into a little bit of how Social Security benefits are calculated. And I think it's important to understand this because as we get onto our next topic, they, it does ultimately depend on how much you should be saving on your own versus relying on Social Security to maybe fill that gap of lost income.

Social Security benefits are [00:07:00] calculated, and I'll just hit a few key points. It pulls your highest 35 years of earnings, and it's n- not, so it's not just your most recent paid. Each year's earnings are wage indexed, meaning if you had a \$40,000 salary back in 1995, it is scaled up to reflect what that \$40,000 would be earned in today's dollars.

So another common question about Social Security too is if you don't have 35 years that you've worked, those missing s- [00:07:30] years will count as zeros. So that's worth, w- understanding, uh, before you take your benefits. The 35 years are then averaged and divided by 12 to f- produce a monthly number, which then runs through a very complicated calculation.

But the crux of it is that the higher income people over time, the replacement rates tend to skew down as it is a progressive formula, meaning higher income

people maybe only have their [00:08:00] benefits replaced anywhere between 40% to 30% of their- Or lower ... or lower, versus maybe someone who had a lower income and those replacement rates for the benefits are anywhere between 75% of maybe what you were working.

Mm-hmm. So the crux of it is, is that- The higher income earners, because of how the pe- benefit formula is being a progressive formula, can't solely rely on Social Security to replace \$200,000 [00:08:30] worth of income if that's what you're maybe used to living on. Mm-hmm. So I guess a question to kind of answer and dive into this a little better is, if you are a high earner, does that mean you should just s- in some ways ignore Social Security in your planning?

Well, I wouldn't ignore it entirely. Yeah. But let's go up the income bracket and let's say a household at \$500,000. Okay. Okay. So even if both of a couple are maxing out Social [00:09:00] Security, which is, if I remember correctly, around \$5,100 if you both wait till 70- That's still, you know, what, 120, \$130,000 on a half a million dollars income?

Where's the other 400 coming from, right? Mm-hmm. Yeah. You really need to save significantly. And like you were talking about at the beginning of this podcast, there are contribution limits. So to save millions of dollars into a retirement [00:09:30] account is very difficult. Most people hit these high incomes much later in life, you know, your mid-50s, early 60s, rather than plateauing for a long time.

And if you haven't properly saved and, you know, accounted for the new jump in income, you're going to have a lifestyle cliff one day where you're going to have a significant reduction, which i- is even if you go from something, right, half a million dollars to 250- ... which is, many [00:10:00] people would envy that in retirement, that might be extremely painful for you if you're used to the half a million dollars.

Yeah. No. And that kind of segues into our last and final topic that we'll talk about is a lot of people like to quote and it's normal human psychology to have a, quote unquote, target for retirement. Mm-hmm. But I think you mentioned a big reason why it's very hard to pick that target is because of the lifestyle.

Lifestyle in retirement is important when you are picking a target. So for people who look to [00:10:30] possibly stay at the same income, they might have two very real, different gaps that they need to fill depending on what- Mm ... that level of income is. So I know it's, kind of industry, you know, rule of thumb out there.

These are just pulling some Fidelity figures, but general rule of thumb is 10X of your ending year salary plus Social Security is what's going to get you to your kind of target retirement savings rates. For lower [00:11:00] income people. Yeah. For lower to that middle income. And then we get to where it is more or less more like 15 to 20X- Mm-hmm

'cause we're not taking into account any Social Security for those higher income people. Well, it's not that you're ignoring, it just- Yeah ... makes up such a less, it's such a low- Yeah ... percentage. You have to come up with the rest of the dollars on your own. Correct. So around those basic general rules and, rule of thumbs and targets that we just laid out what do you think is the biggest mistake, uh, you see people making when they're just [00:11:30] anchoring towards one of these target numbers when they're building out a retirement plan?

I think i- a lot of income peop- high-income people, and I'm not sure exactly where the number is, maybe it's 300, maybe it's 400,000, but... And obviously I'm making a blanket statement. There are individuals that go against this trend. But when people are making this level of income and they max out their 401- Mm-hmm

and then they have surplus, I notice a lot of people think, "I've reached what, I [00:12:00] was supposed to hit." Yeah. "I'm good now." And like I was saying earlier, as you ratchet up the bracket, it may be less and less and less a percentage. That's why we like to measure things in percentage as advisors- where it's saving 8% of your income isn't a good rate. You should be saving closer to 15 to 20. Yeah. Even even if you, quote-unquote, are maxing out your 401, it just isn't enough. Yeah. Versus someone who makes 50% or \$50,000. If you max out your 401, that'd be 50% of your income, which would be [00:12:30] incredibly impressive, and you're much more likely to retire early- Mm-hmm

than the person- Yeah ... right, ironically- Yeah ... who's mu- earns much more than you do. Mm-hmm. Yeah. And to kind of quote, go back on what I think more of the target should be, it should be less on how much you make, but more on how much you're willing or wanting to maintain your exact current expenses.

So if you're going into retirement and you're spending consistently around \$100,000, but you make \$200,000, I would say it's more [00:13:00] on a, target where it's like, do you wanna maintain what you're currently spending- Mm ... rather than living off of \$200,000? Because we can see people on all different

scales of the spectrum where you have people who have millions of dollars saved up, but are, their expenses are covered by Social Security- Mm-hmm

and they're not touching their accounts at all. Oh, yeah. Versus the people who might not have as much saved up are spending at a clip of maybe \$200,000 a year in retirement. So it really does depend on are [00:13:30] you willing to possibly downsize or maybe lower your cost in retirement, or are you looking to maintain or even possibly spend more than what your current level is in retirement?

I think- Mm-hmm ... sometimes don't look at the income. The expenses are more- Yes ... important rather than how much you're currently making. That said, in general, right, th- there are people who are excellent savers, don't get me wrong. Yeah. And, I- we have a good number of them in this practice. But a lot of people have [00:14:00] a tendency, right, especially high income, you max out your 401- And, you know, you pay your taxes.

Everything else to you is now on the table for spending. It's both/and, yeah. And it's, things like childcare and mortgages are big expenses that you have during your main working years rather than in retirement. So that can bring what you need to spend every year down. But we also see those early years of retirement are often the [00:14:30] most expensive in real dollars because you finally get to do all the things you've been- Yeah

delaying while you've been working. Yeah. So there is a, a give and take there. Right? It really depends on what you want in retirement, what does that look like for you? Yeah. And even to add onto that, it's very hard for someone to, once they hit that retirement date, to then all of a sudden now have to put themselves back into a shoes where you don't wanna get five years into retirement and realize that you spent all this money and you maybe have to go back into, [00:15:00] like, a save mode- Mm

where we're budgeting in retirement, 'cause that could be even more difficult than while you were working if you all of a sudden have to now be on a budget in retirement. So like you said, it's important for those high-income earners to realize that the goal isn't just to maximize maybe your employer plan.

It's more of like you were saying, a savings rate percentage- Yes ... and look at it that way. And it is more difficult when, uh, your savings dollars are not coming out of your paycheck, and they're hitting your actual bank account, and now you actually have to, have the [00:15:30] discipline to put them into an investment account or put them aside into another sort of savings vehicle.

That's a lot difficult, more difficult than seeing it just automatically do it for you via the employer contribution. So all good stuff and all things that are very important as we are planning on retiring and reaching our retirement date to keep in mind of. So I think that'll do it for today's episode.

Thank you everyone for watching, and we'll see you guys next time.[00:16:00]

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