Are You Ready for the Golden Years? Most Americans Are Not

By David Gibbs, CPA, CCIFP, MBA

The age of working for one company for your entire career to receive a generous pension plan is over. Instead, 80% of Americans now work at companies that offer a 401(k) or a similar retirement plan. Typically, an employee invests a percentage of their income and employers "match" a portion of the employee's investment.

According to Fidelity Investments, the average 401(k) balance increased to $104,300 last quarter, up 13% from one year ago. The average IRA account balance similarly soared, climbing 13% to $106,000.

Even with these results, research from the U.S. Census Bureau discovered that only 41% of employees contribute to their retirement plans.

The Average American Simply Has Not Saved Enough Money

The Employee Benefit Research Institute claims that only six out of every 10 workers are saving for retirement. One in 10 workers have a formal plan to ensure financial security in retirement. The median American worker estimates they'll need to save $1,000,000 for a comfortable retirement. Even so, only 15% of Americans believe that their current savings habits are going to provide them with an adequate nest egg.

The bottom line is that most Americans are not financially ready for retirement. The Economic Policy Institute's 2016 report claims that the median retirement savings for families aged 56-61 is $17,000. For households between 50 and 55, the median retirement account balance is a mere $8,000.

Max Out on Your Contributions

Fidelity found that only 30% of 401(k) savers increased the amount they're contributing to their retirement plans in 2017. According to Fidelity, the typical worker is contributing 8.6% of his or her income to a 401(k) plan. However, it will take saving 10% to 15% of your income for most people to cover their monthly expenses. If contributing more to your plan seems impossible, increase your rate in small increments annually until you get a satisfactory level.

It is advisable to contribute the maximum amount allowed by the IRS in your 401(k) plan or IRA. The contribution limit was $18,500 in 2018 and will increase to $19,000 in 2019. If you are age 50 or over, the catch-up contribution limit is $6,000 for 2018 and 2019. Employer match or profit-sharing contributions aren't included in these limits.

According to Fidelity, maxing out your 401(k) for 10 years will provide you with a decent amount of money to retire on, even with a somewhat conservative 6% average annual return on investment.

Living on Your Retirement Savings

One rule of thumb is that you should be able to withdraw 4% of your retirement savings each year (adjusted for cost-of-living increases). The average person in their 60s will generally be able to withdraw only $6,880 in annual income from their savings and collect less than $17,000 in Social Security. That brings their annual income to $23,880.

According to the Bureau of Labor Statistics, the average household spends more than $40,000 per year in retirement. That number will increase substantially if you have health issues.

Set Goals and Be Strategic

People who have clear goals and a strategy have generally made more progress saving for retirement. It is important to establish a savings and spending budget. Consistently pay yourself first. Live within or under your means. Pay off your debt as soon as possible and avoid using credit cards unless you can pay the balance in full when it is due.

Meet with a financial planner who can help you decide on your investment strategy. Be conservative in some areas and aggressive in others. Keep a watchful eye on your investments to ensure you are making money but avoid jumping to quickly to make changes due to fluctuations in the market. This is a long-term investment. Depending on the situation, it might be better to stay put.

About the Author

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David Gibbs, CPA, CCIFP, MBA is McCarthy & Company's tax partner and manages the day-to-day operations of the firm. He has initiated numerous processes and procedures to ensure that the work produced by McCarthy & Company is consistently of the highest quality. David holds the well-respected Certified Construction Industry Financial Professional (CCIFP) designation from the Institute of Certified Construction Industry Financial Professionals (ICCIFP).

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