

# Retirement Point

NEWS FOR PLAN SPONSORS AND PARTICIPANTS

June 2021

## *How much of your paycheck should you save?*

### U.S. Markets

Stocks traded in a narrow range in May, with technology and other high-valuation companies under selling pressure. The Dow Jones Industrial Average gained 1.93 percent while the Standard & Poor's 500 Index rose 0.55 percent. The Nasdaq Composite, home for many technology and high-growth companies, dropped 1.53 percent.<sup>1</sup>

### Solid Earnings

Stock prices moved erratically throughout May as investors digested more solid corporate earnings reports, accelerating inflation and mixed economic signals. With 95 percent of S&P 500 constituent companies reporting, 86 percent reported positive earnings surprises. The estimated earnings growth rate was 51.9 percent, the highest rate since the first quarter of 2010.<sup>2,3</sup>

### Inflation Story

The emerging inflation story, however, dampened investor optimism and weighed on the stock market. The latest Consumer Price Index report was particularly unsettling to investors, as consumer prices rose 0.8 percent in April 2021 and jumped by 4.2 percent year-over-year. A 6.2 percent year-over-year spike in the Producer Price Index followed, representing the most significant jump since 2010.<sup>4,5</sup>

Any acceleration in inflation fans investors' fears that the Federal Reserve will adjust its monetary policy. Particularly hard hit during the month were technology and other high-growth stocks. Investors appeared to reduce positions on concerns that higher inflation may lead to higher interest rates, and that combination could reduce the value of future earnings.

MARKET INDEX	Y-T-D CHANGE	May 2021
DJIA	12.82%	1.93%
NASDAQ	6.68%	-1.53%
S&P 500	11.93%	0.55%
YIELD	YTD	May 2021
10 YR TREASURY	0.66%	1.58%

Sources: Yahoo Finance, May 31, 2021

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

### Monthly Quote

"We all have ability. The difference is how we use it."

STEVIE WONDER

### Tip of the Month

Before signing on as a franchisee, double-check the amount of cash available to dedicate to the business. If you need financing, look for lenders who understand the business model of the franchise.

### The Monthly Riddle

A zookeeper has a certain number of cages and a certain number of tigers. If she puts one tiger in each cage, she has one tiger too many. If she puts two tigers in each cage she has one cage too many. How many tigers and cages does she have?

### Last month's riddle:

This is an unusual paragraph. How quickly can you find out what is unusual about it? It looks so plain you would think nothing was wrong with it. In fact, nothing is wrong with it. It is unusual, though. Study it, and think about it, but you still may not find anything odd. What is missing from it?

### Last month's answer:

The paragraph does not contain a single "e," the most common letter in the English language.

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## *How much of your paycheck should you save?*

Well, the answer to that question depends on your personal financial situation. According to a recent survey, 21% of Americans don't save any of their annual income. Yes, saving money can be difficult, especially if you feel like you're just barely making ends meet. But saving is an important part of a well-rounded financial plan. It could be worth asking how much to save from each paycheck to find an amount that will allow you to reach your goals.

### **What's the Right Percentage?**

When it comes to what percentage of your paycheck you should save, financial advice can vary depending on where you look. Some suggest saving as little as 10% while others might suggest 30% or more. According to the 50/30/20 budget, saving 20% of your income for future expenses is optimal. However, the answer to how much to save from each paycheck will depend on your income, your fixed expenses, and your financial goals. For example, if you want to retire early, you should be putting more of your income towards retirement every month than the average worker. One way to calculate your ideal savings rate is to start with your financial goals. How much money will you need to save to reach them and what type of timeline are you working with? Use this information to work backwards and determine how much money you need to save every month (or week, or at any interval that works for you). Once you have planned out how much you need to buy a home next year or retire at 55, you'll have an idea of how much of your paycheck should go to savings, and hopefully be able to hit that goal.

### **What Should You Do with the Money You Save?**

Depending on the financial goal you are working toward you can consider a few options. Perhaps one of your goals is paying off high-interest debt. If that's the case, you'll funnel a portion of the money you save toward that debt. You could also consider putting money for short-term goals into a cash management account. Also, some financial priorities are more critical than others because of their short or long-term impact on your net worth, so it could potentially be helpful to prioritize your financial goals. Then you can allot portions of your savings toward different financial goals. ***Here are a few savings goals that could be worth working toward:***

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### **Saving a Crisis Fund**

Consider building a crisis fund—enough money for at least one month's worth of expenses that is easily accessible in a savings account or other cash equivalent. This might offer a layer of financial protection in case of an emergency or sudden job loss. Having a store of money you can rely on in an emergency could give you the means to avoid taking on credit card debt.

### **Taking Advantage of Your Employer's Match**

Does your company offer a 401(k) with matching contributions? If the answer is yes, it makes sense to take advantage of it. The policy is determined at the company's discretion, so check in with the HR team at your office to confirm what your office offers.

### **Protecting Your Income with Insurance**

Depending on your personal situation you may want to consider things like disability insurance and life insurance. Insurance can protect you against bad things that might derail your financial future. While many employers provide full-time employees with both disability and life insurance policies, some people may consider taking out additional policies. Depending on the plan offered by an employer, it may or may not provide substantial coverage. This could mean that even with the company's disability or life insurance plan, your family could still potentially struggle financially if something goes wrong.

### **Paying Off 'Bad' Debt**

Bad debt is any debt that has high-interest rates—think anything higher than a 7% interest rate. Two common debt payoff strategies are the debt snowball method and the debt avalanche method. With the debt snowball method, you start by paying off the bad debt with the smallest balance and put all your extra payments towards that until it's paid off. After that, you go after the debt with the next highest balance. The debt avalanche method involves putting all your extra payments towards the debt with the highest interest rate. The debt avalanche method involves putting all your extra payments towards the debt with the highest interest rate. Since you are concentrating on the debt with the highest interest rate, this strategy could end up being the most cost-effective. The fireball method combines the best of both the snowball and the avalanche to help you blaze through debt. It suggests targeting bad debt while making minimum payments on good debt—those debts with interest rates less than 7%.

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### **Building an Emergency Fund**

Once you have a plan in place to deal with bad debt, another focus can be building an emergency fund. Ideally, an emergency fund will have enough money to cover your expenses for 3 to 6 months. The actual amount you save is completely up to you.

### **Saving for Retirement**

Sometimes, saving in your 401(k) isn't enough to meet your retirement goals. Take a look at your current retirement savings and do some math to see how much more you need to save before you can comfortably retire. Then check in and see if you're saving enough. Some sources recommend saving at least 15% of your income to stay on track for your retirement goals. But, again, exactly how much of your paycheck should go to savings will depend on your retirement goals. In addition to a 401(k), you could consider other investing vehicles like a Roth or Traditional IRA. Both types of IRAs have different tax benefits. When you invest in a Roth IRA the money is taxed at the time of contribution but then in retirement, you can withdraw it tax free. Contributions made to a Traditional IRA might not be taxed at the time they are made but are taxed when they are withdrawn in retirement. There are a variety of factors that will influence which account is right for you, including how close you are to retirement and your income level and other financial situations. Other vehicles for saving for retirement can include a Health Savings Account (primarily used for medical costs), permanent life insurance (primarily used for death benefits), and other investment accounts.

### **Saving for Other Goals**

Retirement savings and crisis and emergency funds can help you build a layer of financial security. After you've established plans for all of those, consider working toward your other financial goals, like buying a house and saving for your child's college education. How much of your paycheck should you save for these goals? It all depends on what you want to accomplish. Obviously, the more you save the more money your kids might have for college and the sooner you can buy that home, build that cottage, or go on that trip around the world.



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CITATIONS ECONOMIC SECTION:

1. The Wall Street Journal, May 31, 2021
2. FactSet.com, May 21, 2021
3. FactSet.com, May 21, 2021. The estimated, or blended, figure combines actual results for companies that have reported and estimated results for companies that have yet to report.
4. CNBC.com, May 12, 2021
5. CNBC.com, May 13, 2021

CITATIONS FINANCIAL ARTICLE SECTION:

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