

Contributing the Max to Your Retirement Accounts - Transcript

Tom Mullooly: In episode 65, we have some bad news if you're saving money for retirement.

Welcome to the Mullooly Assets Show. I'm your host, Tom Mullooly, and this is episode 65. People ask us all the time, where do we get these topics to talk about? The reality is we're getting them from your feedback. If you're a client, definitely pick up the phone and call us or email us. If you're a viewer or you listen to our podcast, by all means reach out to us. You may find that that question that's been driving you crazy, you may find it featured in an upcoming video or a podcast. So Tim, what's our topic going to be about today?

Tim Mullooly: I've been maxing out my 401k account at work. Am I going to be set for retirement?

Tom Mullooly: That's really an interesting topic, and I'm glad that you wrote in and asked this.

Understand that I think a lot of people today like to check the boxes. They like to say, "Okay, we took care of all the fertilizing and seed for the lawn for our year. Check. We're done. We did the registration for the car. Check, we're done. We did all these things this year, check we're done. Saving money for retirement, check, we're done."

Hold on. Saving money for retirement? I just want to ask this question. The limits for IRAs, Roth IRAs and traditional IRAs, if you're under 50 years old, it's \$5,500 a year. If you're over age 50, it's an extra thousand; it's \$6,500. With a 401k or some retirement account at work, the maximum most people can put away is \$18,000 a year.

This is really timely because Congress is kicking around a tax bill where they may actually drop that to a really low number. But \$18,000 if you're 50 years of age or below. If you're over 50, you can put away \$24,000 a year as a maximum.

Is saving \$18,000 a year in a 401k going to do it? Is that going to check the box for you? Let's just do some math. If you're 35 years old and you put the maximum, \$18,000 a year, into a 401k, let's just assume for the purposes of this video that they're not going to raise the limit and they're not going to lower the limit.

Let's just say that you put \$18,000 a year and you're 35 years old. You do that for 30 years until you're age 65. Without any kind of compounding, no returns, you've contributed \$540,000 into that. Let's just assume that you don't make any money. You retire at age 65 with a little over a half a million dollars.

What can you expect to withdraw out of that account on a monthly basis going forward? Well, if you're like a lot of financial planners, they're going to use 4%. That's \$1,800 bucks. \$1,800 a year. That's it. \$1,800 a month.

So let's just say you're getting social security if social security is still around when you retire, and let's say you double it. Your social security is another \$1,800. So now you're

talking about getting \$3,500 or \$3,600 a month, or Tim, help me out. What's that, that's about \$40,000 a year.

We have clients who live in the northeast and this year, 2017, their property taxes are \$20,000 a year. So a question for you: are things going to cost less in the future, or are things going to cost more in the future? My money's on things are going to cost more in the future.

So we have these arbitrary limits that Congress and the IRS have put together. This is the whole message behind this video. Putting \$5,500 a year into the IRA is not going to check anybody's box. After 30 years you've got \$160,000 or \$170,000 stocked away. If you can somehow do the max into a 401k at work, and a lot of people don't, that's one of the reasons they're talking about lowering the threshold.

But if you're fortunate enough to put the max away, we're talking about a half a million dollars before compounding into a retirement account, if you live 20, 25, 30 years in retirement, how much can you reasonably pull out?

Putting the max into your 401k at work or into an IRA does not check the box for retirement. You are not going to be prepared. You have to save more money than that, and that's the message for today. See you on episode 66.