Retirement Savings by Age: What to Do With Your Portfolio in 2023

Steps you can take at every age to put yourself in a stronger financial position.

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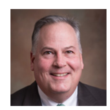

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KEY INSIGHTS

- One of the main ways investors can impact their retirement readiness is by ensuring that they are saving enough along the way.
- Take advantage of the full range of accounts available for retirement savings.
- Stocks remain an important part of the retirement portfolio regardless of age.

The amount of time you have left until you retire is a major factor when determining your retirement readiness. Investors at every age can enter 2023 more strategically by asking themselves these key questions:

- Am I saving enough (or have I saved enough) for retirement?
- Am I investing in the best accounts to achieve my goals?
- Am I investing in the right mix of assets?

Consider the following retirement action plans tailored for each generation.

Establishing Your Career Ages 22–39

It's critical that you start saving for your long-term goals—especially retirement—as soon as possible. Younger investors can take full advantage of the power of compounding over several decades.

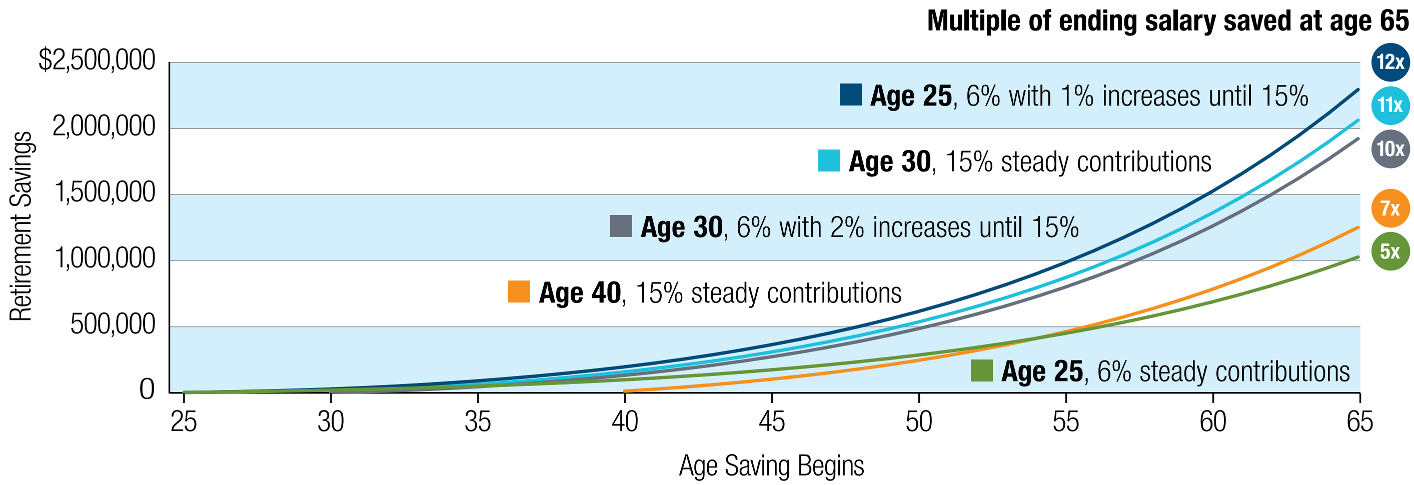
1. Start saving now

T. Rowe Price analysis shows that, in many cases, you should have 11 times your ending salary saved by the time you retire. Setting aside 15% of your annual income (including any workplace plan company match) can help you reach that goal, but if that's too difficult right now, start saving what you can and work to increase that amount over time. (See "Saving Enough for Retirement" on page 2.) Keep in mind that many employer-sponsored plans allow you to automate contribution increases.

Big changes to your budget, such as paying off your student loans or getting married, may provide opportunities to accelerate your savings. "Coming together to form a new household means realigning your goals and finances with

Saving Enough for Retirement

Work to achieve a 15% savings target as soon as possible to help reach your retirement savings goals.



Examples beginning at age 25 assume a beginning salary of $40,000 escalated 5% a year to age 45, then 3% a year to age 65. Examples beginning at age 30 assume a beginning salary of $50,000 escalated 5% a year to age 45, then 3% a year to age 65. Example beginning at age 40 assumes a beginning salary of $80,000 escalated 5% a year to age 45, then 3% a year to age 65. Annual rate of return is 7%. All savings are assumed to be tax-deferred. Multiple of ending salary saved divides final ending portfolio balance by ending salary at age 65. This example is for illustrative purposes only and is not meant to represent the performance of any specific investment option. The assumptions used may not reflect actual market conditions or your specific circumstances and do not account for plan or IRS limits. Please be sure to take all of your assets, income, and investments into consideration in assessing your retirement savings adequacy.

your partner," says Judith Ward, CFP®, a thought leadership director with T. Rowe Price. "You may now have two incomes that can contribute to your retirement savings."

2. Consider saving in a Roth account

Withdrawals from Roth IRA and Roth 401(k) accounts are tax-free in retirement, provided you have held the account for at least five years and are age 59½ or older. Roth contributions are made with after-tax money, making them ideal for workers who expect to be in a higher tax bracket in the future. "If you are starting your career, it's likely your earnings will increase and you'll be in a higher tax bracket later, making Roth contributions a better strategy for many young investors today," explains Ward.

3. Focus on the growth potential of stocks

With several decades left until full retirement age, you should focus on stocks, as you will have enough time to benefit from the long-term growth potential while riding out any short-term volatility.

Middle to Late Career

Ages 40–59

During this time frame, you are likely in your peak earning years. You may still be juggling competing financial goals, or you may be enjoying more financial freedom as your children move out or graduate from college. As a result, you may be able to redirect resources toward your retirement savings.

1. Check your retirement savings progress

T. Rowe Price analysis suggests that 45-year-olds should have three times their current income set aside for retirement. This savings benchmark rises to five times current income at age 50 and seven times current income at age 55. Fortunately, there's still time for even modest adjustments to have a large impact down the road. If possible, aim to contribute the maximum amount to your retirement accounts. Moreover, your retirement contribution limits increase in the form of “catch-up” contributions once you turn age 50, allowing you to focus even more on saving what you need to reach your target. (See “Contribution Limits” on page 4.)

2. Consider supplementing savings with a taxable account

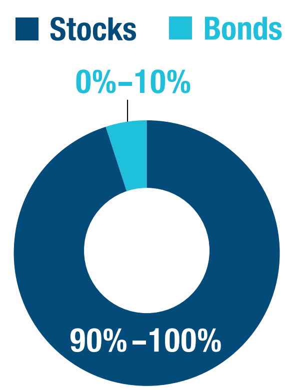
In addition to setting money aside in your retirement accounts, consider saving in a taxable account. “Setting aside money in a taxable account can provide you with flexibility for different goals and improve the tax diversification of your retirement savings,” says Roger Young, CFP®, a thought leadership director with T. Rowe Price. “If you are already on track in your retirement accounts, maybe your next dollar should not go to a tax-deferred account.”

3. Maintain a healthy exposure to stocks

With more than a decade or two of working years left until retirement, it’s important to maintain the growth potential of your portfolio through an appropriate allocation to stocks. In your 50s, you may want to consider adding a meaningful

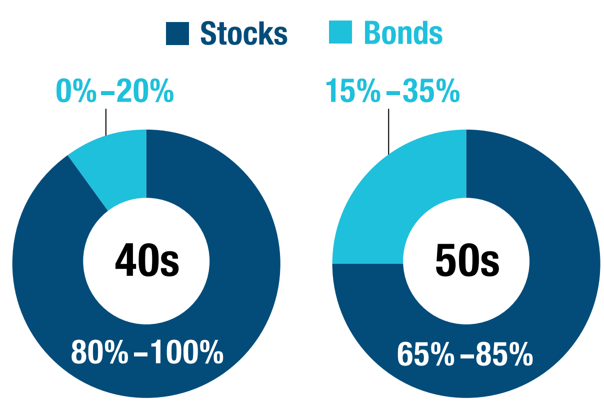
Asset Allocation in Your 20s and 30s

You should be focused primarily on the growth potential of stocks in your retirement savings.



Asset Allocation in Your 40s and 50s

Since you have many working years left, you should still prioritize stocks’ long-term growth potential.



At every age, having an emergency fund that can cover three to six months of expenses can help keep your financial goals on track and offer some peace of mind.

allocation to bonds.

Preparing for Retirement Ages 60+

1. Assess your situation

If you are not yet retired, this is the time to assess your retirement readiness. As a household, review your savings and figure out a plan for taking distributions from your various accounts (including the order and amount) to meet your spending needs in retirement. Be sure to include your Social Security benefits in this plan—now is also the time to understand your options. "Look up how much you could expect to receive in Social Security benefits at different ages, and determine a plan that will work for you," says Young.

If you remain unsure of your retirement readiness, consider delaying retirement by a few more years. This strategy would allow your savings to continue to grow. Consider making those large purchases or paying down debt before you retire and while you're still earning income.

2. Consider broadening your tax diversification with multiple types of accounts

If you don't currently have money saved in a Roth IRA, you may want to consider Roth contributions, if you qualify, or a Roth conversion during lower income years. You can make withdrawals from Roth accounts if you need more income but want to avoid increasing your taxable income for a given year. Roth IRAs (and, after 2023, Roth 401(k) assets) aren't subject to required minimum distributions (RMDs)—the minimum withdrawals required by the IRS from retirement accounts once you turn 73.** Therefore, you can leave the money to continue growing tax-free if you don't need it.

3. Review your asset allocation

Retirement can last up to three decades or more, meaning your portfolio will

Contribution Limits

Take advantage of contribution limits for retirement accounts to make the most of your savings opportunities.

2022	Standard Contribution	Catch-Up Contribution*	Total Possible Contribution
401(k)	$20,500	$6,500	$27,000
IRA	$6,000	$1,000	$7,000

2023	Standard Contribution	Catch-Up Contribution*	Total Possible Contribution
401(k)	$22,500	$6,500	$30,000
IRA	$6,500	$1,000	$7,500

*Additional contribution amount allowed for people age 50 or older. Due to a provision in the SECURE 2.0 Act, starting in 2025, catch-up limits for people ages 60–63 will be increased for 401(k) plans.

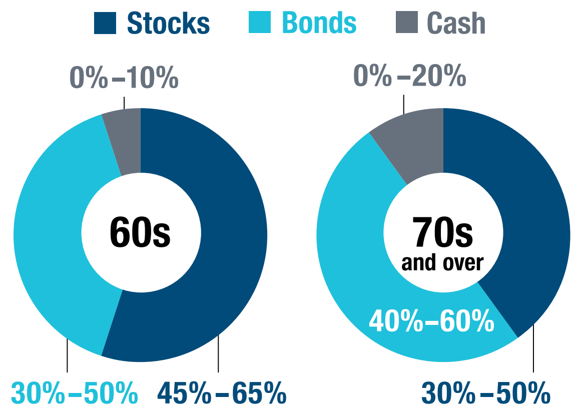
**The SECURE 2.0 Act of 2022 changes the required minimum distribution (RMD) age to 73 for individuals who turn age 72 on or after January 1, 2023. The new law also provides that the RMD age will change again to 75 in 2033.

still need to grow in order to support you. Exposure to stocks should remain an important part of your allocation target, even in retirement. However, a possible need to access these assets for income in the near term means you are more susceptible to short-term risks. That's why it's important to position your portfolio (across all your accounts) to add more exposure to bonds and cash.

No matter your age, you can take steps now to ensure that you are ready for retirement. The key is to make retirement savings a priority early on and then maintain that focus throughout your working years. Even after you've retired, remain focused on a sustainable plan that will help support you through this time of your life.

Asset Allocation in Your 60s, 70s, and over

As you near retirement, your portfolio will move gradually from more aggressive to more conservative.



Asset Allocation Models:

Within Stocks: 60% U.S. Large-Cap, 25% Developed International, 10% U.S. Small-Cap, 5% Emerging Markets

Within Bonds: 70% U.S. Investment Grade, 10% High Yield, 10% International, 10% Emerging Markets

Within Cash: 100% Money Market Securities, Certificates of Deposit, Bank Accounts, Short-Term Bonds

These allocations are age-based only and do not take risk tolerance into account. Our asset allocation models are designed to meet the needs of a hypothetical investor with an assumed retirement age of 65 and a withdrawal horizon of 30 years. The model asset allocations are based on analysis that seeks to balance long-term return potential with anticipated short-term volatility. The model reflects our view of appropriate levels of trade-off between potential return and short-term volatility for investors of certain ages or time frames. The longer the time frame for investing, the higher the allocation is to stocks (and the higher the volatility) versus bonds or cash. While the asset allocation models have been designed with reasonable assumptions and methods, the tool provides models based on the needs of hypothetical investors only and has certain limitations: The models do not take into account individual circumstances or preferences, and the model displayed for your investment goal and/or age may not align with your accumulation time frame, withdrawal horizon, or view of the appropriate levels of trade-off between potential return and short-term volatility. Investing consistent with a model allocation does not protect against losses or guarantee future results. Please be sure to take other assets, income, and investments into consideration in reviewing results that do not incorporate that information. Other T. Rowe Price educational tools or advice services use different assumptions and methods and may yield different outcomes.

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