

# Retirement Planning for People Under 50



For those under 50, your most powerful financial asset isn't your income—it's time. This guide focuses on maximizing your advantage through early saving, smart investing, and strategic risk management.



## The Magic of Time and Compounding

Compound interest is the process where your investment earnings are reinvested to generate their own earnings. Starting early means your money has decades to snowball, requiring significantly less effort from you later on. The difference between starting at 25 versus 35 is often the most expensive decade of your life.

## The Cost of Delay

The individual who started at age 25 spent \$126,200 less of their own money than the person who started at age 35 to reach the same goal. They let time and the market do the heavy lifting.

## The 15% Rule

A great starting goal for anyone under 50 is to save 15% of your gross income (salary before taxes) for retirement. This includes any employer match you receive. Action Item: If you aren't saving 15% yet, increase your contribution by 1% or 2% with every annual raise you receive until you hit that target. You won't miss the small increase, but your retirement account will thank you for it.

Age Started	Monthly Investment (to reach \$1 Million)	Total Out-of-Pocket Contribution	Growth from Compounding
25	\$445	\$214,000	\$786,000
35	\$945	\$340,200	\$659,800
45	\$2,185	\$524,400	\$475,600

*(Assumes 7% average annual return and retirement at age 65.)*

# Don't Leave Free Money on the Table

If your employer offers a 401(k) match (e.g., matching 50% of your contributions up to 6% of your salary), you must contribute at least enough to get the full match. This is an immediate, guaranteed 50% or 100% return on your investment, and it is the single most crucial step in retirement saving.

## (The Roth Strategy)

For most people under 50 who expect to be in a higher tax bracket during retirement than they are today, the Roth IRA or Roth 401(k) offers the most significant long-term benefit.

## Tax Diversification:

Ideally, you should have money in both Traditional and Roth accounts, giving you flexibility to manage your taxable income stream in retirement.

## The Power of Future Tax-Free Income

A powerful lever you have is utilizing tax-advantaged accounts. These accounts, known as "qualified" plans, let you keep more of your money by deferring or eliminating taxes.

## The Triple Tax Advantage (HSA)

If you have a High-Deductible Health Plan (HDHP), the Health Savings Account (HSA) is unmatched for tax efficiency:

1. Tax Deduction: Contributions are tax-deductible.
2. Tax-Deferred Growth: The money grows tax-free.
3. Tax-Free Withdrawal: Withdrawals are tax-free if used for qualified medical expenses.

Once you turn 65, you can withdraw funds penalty-free for any purpose (taxable if not for medical use), making it a valuable backup retirement account.

Account Type	Tax Timing	Why It's Powerful for the Under-50s
Traditional (Pre-Tax)	Tax deduction <i>now</i> , pay tax <i>later</i> (during retirement).	Best if you need a tax break today and expect to be in a lower tax bracket in retirement.
Roth (After-Tax)	Pay tax <i>now</i> , withdrawals are tax-free in retirement.	Best if you expect tax rates to increase in the future, or if you expect to be earning more in retirement (and thus in a higher tax bracket).

# Protecting Your Wealth and Your Income

As a younger worker, your largest asset is your future earning potential. You must protect this against two major risks: premature death and long-term illness.

## 1. Income Replacement Shield: Term Life Insurance

If you have a spouse, children, or significant debt (mortgage, student loans), you need life insurance. Term life insurance is the best solution during your working years.

- **Purpose:** To replace your income for a defined period (e.g., 20 or 30 years) if you die prematurely.
- **Cost:** It is incredibly affordable when purchased in your 30s or 40s because the policy only pays out if you die within the term.
- **Recommendation:** A policy 10–12 times your current salary is a good target to cover lost income, childcare, and mortgage debt. eparate from your 401(k).



## 2. Building a Flexible Future Asset: Cash Value Insurance (IULs)

While Term insurance handles risk, permanent insurance policies like Indexed Universal Life (IUL) are sophisticated tools used for long-term cash accumulation and estate planning.

- **How it Works:** A portion of your premium goes toward insuring your life, and the remainder goes into a cash value account that grows based on a stock market index (like the S&P 500), usually with a floor (0%) to protect against losses.
- **Benefit:** The accumulated cash value can be accessed via tax-free policy loans in retirement or used for large expenses (like college tuition) without having to sell stocks in a down market. This creates a valuable, non-correlated pool of funds separate from your 401(k).



# Setting the Stage for Financial Security

## Growth-Focused Asset Allocation

Because you have a long time horizon (15+ years until retirement), you can afford to take on more risk in exchange for greater potential returns. Your portfolio should be heavily tilted toward equities (stocks). A common starting point is the Rule of 110:  $\$110 - \text{Your Age} = \text{Percentage in Stocks}$ .

Your Age	Stock %	Bond %	Investment Focus
35	75%	25%	Maximum Growth
45	65%	35%	Growth with Moderation

Recommendation: Stick with low-cost index funds (like total stock market or S&P 500 funds) within your qualified accounts.

## The Essential Estate Planning Checklist

Estate planning isn't just for the wealthy or the elderly; it's vital for anyone with dependents. You need documents now to protect your assets and—most importantly—your children.

Document	Purpose	Risk of Not Having It
Will	Names guardians for your minor children and specifies how assets pass.	A court decides who raises your kids and manages your property.
Durable Power of Attorney (POA)	Names someone to handle your finances if you become incapacitated.	Your family may need a costly court order to access bank accounts to pay bills.
Healthcare Power of Attorney	Names someone to make medical decisions if you cannot.	Doctors and hospitals must rely on default laws, which may not align with your wishes.

### FINAL STEPS

**Make sure you name contingent beneficiaries on all your financial accounts (401(k), IRA, Life Insurance).**

**These designations bypass your Will and ensure the money goes exactly where you intend quickly and efficiently.**



## RETIREMENT LAST WORDS

- **Define Your Purpose**, Not Just Your Withdrawal Rate.
- **Create a Tax-Smart Distribution** Strategy.
- **Plan for the Costs of Longevity** (Health and Care).
- **Downsize Debt**, Not Just Expenses.

*Disclaimer: This guide provides general information about Medicare. Rules and costs can change annually. For personalized advice, consult official Medicare resources, a licensed insurance agent, or a financial advisor.*



## HELPFUL RESOURCES

### Official Government Resources

- Social Security Administration (SSA) 800-772-1213
- Medicare 800-633-4227
- U.S. Department of Labor Employee Benefits Security Administration) 866-444-3272
- Thrift Savings Plan (TSP) 877-968-3778

### Nonprofit and Educational Resources

- AARP (American Association of Retired Persons) 888-687-2277
- State Health Insurance Assistance Program (SHIP) 800-803-7174

Contact us today for a free consultation and start planning your financial success with confidence

### Chuck Henrich

Registered Investment  
Advisor, Retirement



☎ (269) 323-7964  
🌐 [southwestmichiganfinancial.com/](https://southwestmichiganfinancial.com/)  
✉ [chuck@swmif.com](mailto:chuck@swmif.com)

4341 S Westnedge Ave Ste. 1201, Kalamazoo, MI  
830 W Michigan Ave, Marshall, MI 49068