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Some HENRYs are saving too much for retirement — and it may backfire

Noah Sheidlower Nov 9, 2023, 2:07 PM EST

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Some wealthier millennials and Gen Zers are over-saving for retirement. Maryna Terletska/Getty Images

Across the country, millions of Americans are struggling to save enough for a comfortable retirement, but for a small group of wealthier Americans, over-saving is also causing some problems.

Among some HENRYs — or high earners, not rich yet — over-saving for retirement is a major pain point, according to Priya Malani, founder and CEO of Stash Wealth, which assists HENRYs with their financial futures.

While there is no set definition of "over-saving," it can mean saving much more than is typical or recommended for a particular age or geographical demographic. This can mean putting 30-40% of annual pay into a retirement account instead of 20% — the median for Gen Z workers who have such accounts, according to the Transamerica Center for Retirement Studies.

"Over-saving for the future implies you are likely compromising on the things you want to do today," Malani told Insider. "Logically, if you save less of your income for future spending, you free up cash for the things you want to do now or in the near future."

While it's rare that people are saving too much for retirement, Malani said it happens among HENRYs somewhat frequently. Many HENRYs nervous about the future feel the need to devote a large portion of their income to retirement.

This could look like going over annual contribution limits consistently — meaning more than \$22,500 each year for their 401(k).

"Generally speaking, we advocate that clients stop blindly maxing out their 401(k), especially clients who are in their 20s," Malani said. "When you're young, you can save a lot less and still end up with more than someone who doesn't start saving until they're in their 30s."

This could also mean not consistently meeting other monetary goals, such that the amount being saved for retirement takes away from spending on day-to-day needs and wants.

"I don't worry so much about over-saving versus I do under-spending, as it's two sides of the same coin," David Blanchett, managing director and head of retirement research for PGIM DC Solutions, told Insider. "When people get to retirement, they have a nest egg, and when you don't know how long you're going to live, you don't know what the market's going to do, it's hard to spend that money down."

Most Americans are still struggling to save up for retirement

For many Americans, saving for retirement may be the last thing on their minds as they try to make ends meet.

Around 64% of workers said they don't have enough for a comfortable retirement, the Employee Benefit Research Institute's 2023 Retirement Confidence Survey states. Many older Americans have been unable to retire or have gone back to work, given investment firm T. Rowe Price estimates that retirees should have about 13 times their annual salary saved up by 65.

Meanwhile, a report from October the National Institute on Retirement Security, found that many Gen Xers are less prepared for retirement than boomers and millennials.

Even though Gen Z is on a better track for a comfortable retirement than their parents, a recent analysis by WealthCare Financial estimates Gen Z will need roughly \$3 million saved up for a 20-year retirement. Around two-thirds of Gen Zers surveyed by Transamerica Center for Retirement Studies said they had already

started saving for retirement — and the median age at which they start is 19.

Over-savers may be sacrificing what matters now

Some HENRYs have not been personalizing their retirement planning, which has led many to overestimate how much they need to save. Malani says people should strive to replace around 80% of their current annual income for a comfortable retirement, though this doesn't apply for all income levels, geographies, and other demographics.

"The biggest mistake we see HENRYs make is winging it with their financial life for too long — saving for the sake of saving or investing for the sake of investing," Malani said. "Without concrete goals in mind, HENRYs are throwing money in an ad hoc fashion and not allowing it to work for them towards their short-, mid-, and long-term."

Blanchett has concluded typical replacement rates actually range from 54% to 87%. This means that those with higher incomes planning to save with that 80% benchmark in mind may be over-saving and thus cutting back on the things that matter to them.

"If you're under the age of 40 and saving more than 20% for retirement, that's more than you might need to be saving," Blanchett said. "Just ask yourself, why am I setting aside such a large portion of my paycheck?"

Some HENRYs looking to retire as early as 40 likely need to put more of their income into retirement accounts, though for other HENRYs cautious about the economy, having high retirement savings rates may not be helping in the short term.

Still, preparing for the future, especially with fluctuations in the housing market, is hard to predict.

"Saving for retirement takes some level of knowing what type of lifestyle you'll want in retirement," Malani said. "For most HENRYs, thinking about what retirement might look like is a guess, at best. That makes saving for retirement tricky."

Malani said people should save what they can now while also enjoying their lives. There's little reason for wealthier young Americans to push back buying a home or starting a family due to anxiety about retirement saving.

"We're a generation that doesn't take time for granted. We seek balance. We want to get to know the world around us while we're still healthy and able to," Malani said. "If you overweight priority for the long-term, i.e. retirement, you might have to compromise on other things that are important to you, like traveling, purchasing a home, or growing your family.

This entails figuring out a good retirement timeline that does not sacrifice daily expenses and leisure spending, as well as customizing savings rates to each person's financial situation and goals. For Malani, this means being "responsibly reckless."

"For individuals that are 'over-saving,' are you not doing things that you would fundamentally enjoy because of how much you're saving? I think that's the biggest question," Blanchett said. "I think it's just important not to save just to save and to save for a reason."

Are you a HENRY who is worried about saving for retirement? Reach out to this reporter at nsheidlower@businessinsider.com.