Finance Clearly

The US Retirement Quick-Start Guide

A plain-English roadmap for building real retirement income - written for people who want the maths, not the marketing

Eight pages. Plain language. By Logan R. Sterling for Finance Clearly.

FINANCE CLEARLY

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Why this guide exists

Most retirement content falls into one of two camps: terrified-of-everything blog posts that tell you to max out a Roth IRA without explaining what it is, or industry-sponsored articles that confidently describe "7 must-have annuities" without disclosing the kickback. This guide is neither.

It's eight pages, plain language, written by someone who has spent years comparing how the US and UK retirement systems actually work in practice. By the end, you'll know:

- What a 401(k), IRA, and Roth IRA actually are, and which one to prioritise
- The contribution limits for 2026 and how to use the catch-up rules if you're over 50
- How to value an employer match (most people get this maths wrong)
- The Social Security claiming-age decision, demystified
- The retirement income number for your lifestyle (and why "a million dollars" is the wrong target)
- Three specific mistakes that cost most savers six figures over a working life
- Where to go next when this guide runs out

Part 1: The three accounts you need to understand

401(k)

A 401(k) is a retirement account offered by your employer. Money goes in pre-tax (or post-tax for a Roth 401(k), if your employer offers it). It grows tax-deferred. You pay income tax on withdrawals in retirement.

The 2026 contribution limit is $23,500 if you're under 50, or $31,000 if you're 50 or older (the extra $7,500 is the "catch-up" contribution). Your employer's match doesn't count against this limit; it's on top.

Traditional IRA

An IRA — Individual Retirement Account — is the same idea but you open it yourself, separately from your employer. The 2026 limit is $7,000, or $8,000 if you're 50+. Tax treatment matches a 401(k): pre-tax contributions, tax-deferred growth, taxable withdrawals.

Most people who have a 401(k) at work also open an IRA. They are complementary, not redundant.

Roth IRA

A Roth IRA reverses the tax timing. You contribute money you've already paid income tax on. It grows tax-free. Withdrawals in retirement are tax-free. The contribution limits are the same as a Traditional IRA: $7,000, or $8,000 at 50+.

The catch: there are income limits. For 2026, single filers earning above $165,000 cannot contribute directly (the phase-out starts at $150,000). Married filing jointly cannot contribute above $246,000.

If you're above the income cap, the "backdoor Roth" route still works for most people — but it's a strategy, not a default. We've written about that separately.

Part 2: The order to fund things

If money is tight (and it usually is), prioritise in this order:

1. Employer 401(k) match — every time.

If your employer matches the first 6% of your salary that you contribute to your 401(k), and you contribute 0%, you are choosing to leave 6% of your salary on the table. There is no investment in the world that beats a 100% return on day one. Always capture the full match before doing anything else.

2. High-interest debt.

Anything above ~7% interest — credit cards, payday loans, some auto loans — beats the long-term expected return of the stock market. Pay it off before saving more.

3. Roth IRA up to the limit.

If you're under the income limit, max your Roth IRA. Tax-free withdrawals 30+ years from now are extraordinarily valuable, and the limits are use-it-or-lose-it annually.

4. 401(k) up to the full limit.

Keep filling your 401(k) up to $23,500 (or $31,000 if 50+). Even past the match.

5. Brokerage account / HSA / 529 / mortgage.

Once your tax-advantaged accounts are full, the next decision depends on your goals. Health Savings Accounts are a tax-triple-play if you're eligible. 529 plans help with kids' education. Brokerage accounts give flexibility. Paying down a low-rate mortgage is fine but rarely the highest-return option.

This is the sequence most fee-only financial planners use. It's not glamorous. It's correct.

Part 3: How to value an employer match

A 401(k) match is the single most valuable benefit most US employers offer, and most employees underestimate it.

Say you earn $80,000 and your employer matches 50% of your contributions up to 6% of salary. The full match is $80,000 × 6% × 50% = $2,400 per year.

If you contribute the 6% needed to capture the full match for 30 years, and the combined balance grows at 7% annually, the employer's contributions alone become roughly $241,000.

That's not a side benefit. That's an extra $240,000 of retirement money for being an employee who ticked one box.

If you change jobs, capture the next employer's match too. The match is part of your compensation package — negotiate it like you would salary or PTO.

Part 4: The Social Security claiming decision

You can claim Social Security retirement benefits as early as age 62, as late as age 70, or anywhere in between. The amount you receive scales with the age you claim:

- Claim at 62: roughly 70% of your full benefit
- Claim at full retirement age (67 for most people born after 1960): 100%
- Claim at 70: 124% of your full benefit

The reason this matters: if you live to 85, claiming at 70 produces about 30% more lifetime Social Security income than claiming at 62, even after adjusting for the eight years of missed payments.

The rule of thumb: if you have other sources of retirement income (401(k), savings) and reasonable health, delay claiming until 67 or 70. If you have no other income and your health is poor, claim earlier.

If you're married, the higher earner's claiming age also affects survivor benefits. This is worth modelling carefully — we have a longer guide on the site walking through the maths.

Part 5: How much do you actually need to retire?

The "$1 million" number you see in headlines is roughly meaningless because it ignores the only thing that matters: your spending.

The better calculation: your annual retirement spending × 25.

This comes from the Trinity Study, which found that a portfolio of 50-75% stocks and 25-50% bonds, withdrawn at 4% per year, has historically lasted 30 years across almost every starting point in modern US history. Multiply your annual spending by 25 and you have a 4% withdrawal rate target.

Examples:

- Spending $40,000/year in retirement → $1,000,000 needed
- Spending $60,000/year → $1,500,000 needed
- Spending $80,000/year → $2,000,000 needed

Social Security covers some of this. If you'll receive $24,000/year in Social Security, you only need to fund the remaining $40,000-$56,000-$76,000 from savings. That's $1m-$1.4m-$1.9m respectively.

The most common mistake: people calculate based on their *current* spending, including a mortgage they'll have paid off, a commute they'll no longer make, and kids they'll no longer be supporting. Retirement spending is usually 15-30% lower than working-life spending. Run the maths on your *retirement* lifestyle, not your current one.

Part 6: The three mistakes that cost six figures

1. Cashing out a 401(k) when changing jobs.

A $50,000 401(k) cashed out at age 35 costs you the tax bill (typically 30-40%) plus a 10% early withdrawal penalty. The remaining ~$30,000 you receive, if it had stayed invested at 7% annual growth, would have become roughly $323,000 by age 65. You don't lose $50,000 by cashing out. You lose $323,000.

Always roll over to an IRA or your new employer's 401(k) instead. The IRS gives you 60 days. Use them.

2. Holding too much company stock.

If your employer's stock is part of your 401(k), and you're not actively rebalancing, it can quietly become 30-50% of your retirement savings. This is the same company that pays your salary. If they hit hard times, you lose your job *and* a third of your retirement. Limit company stock to 5-10% of your portfolio.

3. Picking funds based on past returns.

The fund that returned 18% last year is not the fund that will return 18% next year. It is, on average, the fund that will revert toward the market average. Pick low-cost, broadly diversified index funds (Vanguard, Fidelity Zero, Schwab) and stop watching the daily price.

Part 7: Where to go next

This guide is deliberately compact. For deeper coverage, Finance Clearly has full articles on:

- Roth IRA income limits and the backdoor route
- Solo 401(k) for self-employed people
- 401(k) employer matching across job changes
- Social Security and Medicare, full guides
- Sequence-of-returns risk in retirement
- Cross-border retirement planning (UK + US)

All free. All written by people with the credentials to write them.

If you have UK ties — you've worked there, you're moving there, you have UK pensions — the cross-border guide is worth particular attention. Most US-focused retirement content ignores the UK system entirely, which is a problem if half your assets are on the wrong side of the Atlantic.

You'll hear from me again in three days with one specific habit that changes how everyone I know thinks about saving. After that, roughly once a week.

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