

# FINANCIAL WELLNESS

## HOW MUCH MONEY DO I NEED TO RETIRE?

How much you need for retirement depends on your retirement goals. Do you want to go back to school? Pursue a favorite hobby? Travel? What is the outlook for your health? Will your family take care of you if you are unable to care for yourself? The answers to these questions are crucial when determining how much money you will need for the retirement you desire—and how much you will need to save between now and then.

Once you have a clearer picture of your retirement goal, you can start planning for how much you will need to save to meet that goal. The vast majority of people never take this step, yet it is very difficult to save adequately for retirement if you don't at least have a rough idea of how much you need to save every month.

There are numerous worksheets, software programs and professional financial planners that can help you calculate approximately how much you'll need to save. Regardless of what source you use, the following are some of the basic questions you'll need to address.

### How much retirement income will I need?

A good rule of thumb is that you'll need to replace 70% to 90% of your pre-retirement income to enjoy the standard of living you're used to. If you're making \$50,000 a year now (pretax), you might need \$35,000 to \$45,000 a year in retirement income. Generally, the lower your income, the higher the portion of it you will need to replace.

However, no rule of thumb fits everyone. Expenses typically decline for retirees: taxes are smaller and work-related costs usually disappear. But overall expenses may not decline much if you still have a home and college debts to pay off. Large medical bills may increase your retirement costs.

Much will depend on the kind of retirement you want to enjoy. Someone who plans to live a quiet, modest retirement in a low-cost part of the country will need a lot less money

than someone who plans to be active, take frequent vacations and live in an expensive region.

For younger people in the early stages of their working life, estimating income needs for 30 to 40 years in the future is obviously difficult. Start with a rough estimate and begin saving something—starting small is better than not starting at all. Then every two or three years review your retirement plan and adjust your estimate of retirement income needs as your annual earnings grow and your vision of retirement begins to come into focus.

### How long will I live in retirement?

Based on current estimates, a male retiring at age 65 today can expect to live approximately 18 years in retirement. A female retiring today at age 65 can expect to live approximately 20 years.

How long you can expect to live will depend on factors such as your overall health and family history, but generally people are living longer today than they did in the past, and most experts expect that trend to continue.

### What other sources of income will I have?

Since October 1999, Social Security has been mailing statements to workers age 25 and older showing all the wages reported and an estimate of retirement, survivor and disability benefits. You can also request a statement by visiting the Social Security Administration's website at [www.ssa.gov](http://www.ssa.gov) or by calling 800-772-1213 and requesting a free Personal Earnings and Benefit Estimate Statement.

Think about other sources of income you may have in addition to Social Security. For instance, will you receive a pension that provides a specific amount of retirement income each month? Is the pension adjusted for inflation?

## **What savings do you already have for retirement?**

You'll need to build a nest egg sufficient to make up the gap between the total amount of income you will need each year and the amount provided annually by Social Security and any pension income. This will come from your retirement plan accounts at work, IRAs, annuities and personal savings.

## **What adjustments must be made for inflation?**

The cost of retirement will likely go up every year due to inflation—that is, \$35,000 won't buy as much in year five of your retirement as it will the first year, because the cost of living usually rises. Although Social Security benefits are adjusted for inflation, any other estimates of how much income you need each year—and how much you'll need to save to provide that income—must be adjusted for inflation. The annual inflation rate varies over time; for example, in 1980 it was 13.5%, but in 2010 it was 1.6%. However, it's always safer to assume a higher rate. Retirement calculators should allow you to make your own estimate of inflation.

## **What will my investments return?**

Any calculation must take into account what annual rate of return you expect to earn on the savings you've already accumulated and on the savings you intend to make in the future. You also need to determine the rate of return on your savings after you retire. These rates of return will depend in part on whether the money is inside or outside a tax-deferred account. It's important to choose realistic, conservative rates of return when making your estimates.

## **How many years do I have left until I retire?**

The more years you have, the less you'll have to save each month to reach your goal.

## **How much should I save each month?**

Once you answer the questions above, you can calculate the amount to save each month. Revisit this worksheet at least once every two or three years and adjust your plan as necessary.

Click on the link below for a retirement calculator provided by Prudential Financial:

<http://preparewithpru.com/shared/content/retirement-plan-savings-calculator.php>

*Article adapted from the U.S. Department of Labor publication of the same title.*