How Much Should You Save for Retirement?

Saving for retirement can be daunting, but as with any long-term project, it may help to have a plan. Yet less than half of current workers have tried to estimate how much savings they will need to live comfortably in retirement. Those who do try to estimate their needs tend to set higher savings goals and are more confident that they can enjoy a comfortable retirement.[1]

Though every situation is different, one common guideline is that you may need to replace 70% to 80% of your pre-retirement income. This typically assumes that you will have paid off your mortgage, will be in a lower tax bracket when you retire, won't be saving for retirement, and will not have work-related expenses, such as for commuting and business clothing.

A Basic Idea

This worksheet might give you a general idea of the savings needed to generate your desired retirement income.

	Example	You
Annual retirement income desired	$80,000	
Subtract expected retirement income from sources such as Social Security or a pension	– $30,000	
Income you need to generate from savings and investments	$50,000	
Savings needed to provide desired income for 25 years (line 3 x 17.4)*	$870,000	
Savings needed to provide desired income indefinitely (line 3 ÷ 0.03)*	$1,667,000	

*Assumes a 3% after-tax rate of return; the 25-year factor is rounded.

This hypothetical example is used for illustrative purposes only. Rates of return will vary over time, particularly for long-term investments. Investments seeking to achieve higher rates of return involve a higher degree of risk. Actual results will vary.

If your retirement is 20 or 30 years away, it might be difficult to project your retirement income needs and living expenses, but it may help to start with some rough numbers. If retirement is nearer, projecting income and expenses should be easier. Here are some tips to consider.

Estimate your Social Security benefits. You can calculate your future Social Security benefits using the Retirement Estimator at *ssa.gov*. Keep in mind that this tool assumes current benefit levels; the 2016 trustees' report suggests that the program may be able to pay only 77% of scheduled benefits after 2035, unless Congress takes action.[2] On the other hand, your future benefit may rise as your salary increases and the Social Security Administration makes cost-of-living adjustments.

Be realistic about investment returns. Higher returns might enable your nest egg to grow faster, but it may be more prudent to use a modest rate of return in your calculations. If you experience higher returns, you might consider it a bonus. Remember that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Consider your retirement lifestyle. Perhaps you want to travel more, move to a different area of the country, or engage in new activities. Would these lifestyle choices require more retirement savings?

Prepare for a long retirement. Your retirement may last 25 or more years. According to recent mortality tables, a healthy 45-year-old man would have a 45% chance of living to age 90 and a 27%

chance of living to age 95. The odds of living to 90 or 95 are 56% and 37%, respectively, for a healthy 45-year-old woman.[3]

Factor in medical expenses. Modern medical care has contributed to longer life expectancies, but costs continue to rise. A couple who retired at age 65 in 2015 could spend an average of $259,000 on medical expenses in retirement (including Medicare and Medigap premiums, out-of-pocket expenses, and median prescription drug expenses).[4] Future retirees might face even higher medical expenses.

The simplified worksheet above could help you start estimating your retirement needs, but you may benefit from professional advice and a more thorough cash-flow analysis. Although there is no assurance that working with a financial professional will improve investment results, a professional who focuses on your overall objectives can help you consider strategies that could have a substantial effect on your long-term financial situation.

1) Employee Benefit Research Institute, 2016
2) Social Security Administration, 2016
3) American Academy of Actuaries and Society of Actuaries, 2016 (based on a nonsmoker in excellent health)
4) Employee Benefit Research Institute, 2015