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A short Webinar Series Presented By

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How much do I need in order to retire?

1) The first thing you need to do in order to find out how much money you will need to have stashed away for retirement is to understand how much money you need right now. Once we understand what we need now, we can then make some adjustments to see what we will need in retirement. The best way to understand your current needs and what your future needs might be is by having a budget. This helps you know exactly where each of your dollars are going. But if we are being realistic, we know that not everyone operates on a budget. So, to figure out how much you will need in retirement there are two main methods.
   a. The first method you could use would be to take your gross income, what you bring in before taxes, and subtract out how much money you are saving for retirement and any expiring expenses that you will not have when you are in retirement. Expiring expenses could be things like less money going towards transportation since you will not be commuting to work any more or maybe even your mortgage if you hope to have it paid off pre-retirement. This is going to be a very individualized number for everyone, but generally people can live on between 70% -80% of their gross income pre-retirement.
   b. The second method to help figure out how much money you will need is to take your current expenses and then add anticipated taxes on top of them. Figuring out current expenses is fairly easy; just look to see where your money is going to each month. Figuring out what your taxes will look like is a bit more difficult. Typically, people pay less in taxes in retirement than they did while they were working. However, what your tax bill looks like will depend heavily on whether your money is coming from a pre-tax account, Roth, after-tax account, or a combination. To get a more accurate picture of what your taxes might look like its best to sit with a financial planner to go over your situation.

2) Once you figure out how much money you need the next step is to account for inflation. Inflation causes the cost of everything you buy to increase over time, making it so that your dollars end up buying less of the same exact thing in the future. For example, a family that needs $60,000 a year today and is 30 years away from retirement will end up needing $126,000 in year 1 of retirement if inflation is just 3% a year.

3) In step 3 we subtract any guaranteed income that we will have throughout retirement. Typically, guaranteed income comes from Social Security, but you may also receive guaranteed income if you have a pension or an annuity. So to continue with the example, if the family that needs $126,000 per year in retirement expects to receive $30,000 a year from Social Security that means that they will need to be able to generate $96,000 a year from their retirement savings.

4) Once we have all this information, we can then calculate how much we will need in assets to generate that income, plus continue to keep up with inflation throughout retirement. To calculate this, we take our annual need and divide it by 4%. 4% may seem like an arbitrary number but we use 4% because an individual who is invested 60% in stocks and 40% in bonds could withdraw 4% of their account initially and increase their withdrawal by 3% a year

to keep up with inflation and there would be slim-to-no chance that they run out of money in retirement. So that same family that needs $96,000 a year would need to have $2,400,000 saved by the time they get to retirement. That $2.4 million would allow them to maintain their current standard of living throughout retirement without having to worry that they will run out of money during it.

5) Now that we know how much we will need to retire, the next thing to figure out is how we get there. There are online calculators that you can use which can tell you exactly how much you need to be saving each year to reach your goal. An example is calculator.net. However, if you find that you are not on track or you need to be saving significantly more than you are right now there are a few things you can do to help get you back on track.

   a. The first option is to work longer than you originally planed to. This allows you extra time to save for retirement, while decreasing the amount of money you will need during it.

   b. You could also consider delaying taking your Social Security benefit. You can start taking your benefit at age 62, the catch is you receive a significantly reduced benefit if you do. Each year that you delay taking Social Security allows your benefit to grow, meaning you will need less money from your retirement accounts to maintain your standard of living.

   c. If delaying retirement or Social Security is not in the cards, trying to find ways to spend less and move that money over to savings can significantly help you get on track. Not only are you reducing the amount of money that you will need in retirement by finding ways to spend a little less, but you also increase your savings rate at the same time. Because of this, spending less and saving more has a double benefit to you and typically is the best way get on track for retirement.

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