

How Much Should I Save for Retirement?

Here is simple formula to use to determine how much you should be saving for retirement.

	Example	Fill in
Yourself		
1) How much annual income will you want in retirement? (Figure 70% of your current income)		
We'll assume a current net income for a single person of \$30,000.	\$21,000	_____
2) Subtract the income you annually expect to receive from:		
a) Social Security		
If you make under \$25,000, enter \$8,000;		
Between \$25,00 and \$40,000, enter \$12,000;		
Over \$40,000, enter \$14,500	-\$12,000	- _____
b) Traditional Employer Pension	-0	- _____
c) Earned Income after Retirement	-0	- _____
d) Other	-0	- _____
3) This is what you need to make up for each retirement year:	\$9,000	_____
To determine how much you'll need in the bank when you retire in 20 years, we assume a constant real rate of return of 3% after inflation, you'll live to age 87 and you'll begin to receive income from Social Security at age 66.		
4) To determine the amount you'll need to save, multiply line 3 by the factor below:		
Age you expect to retire:	Your factor is:	
55	21.0	
60	18.0	
66	16.4	
70	13.6	
We'll use age 66 in our example. ($\$9,000 \times 16.4 = \$147,600$)	\$147,600	_____
5) Multiply your savings to date by the factor below:		
If you want to retire in:	Your factor is:	
10 years	1.3	
15 years	1.6	
20 years	1.8	
25 years	2.1	
30 years	2.4	
35 years	2.8	
40 years	3.3	
We'll assume we have saved \$10,000 and want to retire in 20 years. ($\$10,000 \times 1.8 = \$18,000$).	-\$18,000	- _____
Total savings needed at retirement	\$129,600	_____

6) To determine the annual amount you'll need to save, multiply the total savings amount by the factor below:

If you want to retire in:	Your factor is:	
10 years	.085	
15 years	.052	
20 years	.036	
25 years	.027	
30 years	.020	
35 years	.016	
40 years	.013	
We want to retire in 20 years ($\$129,600 \times .036 = \$4,666$)	\$4,666	_____
\$4,666 = \$388 per month		

This worksheet simplifies projected Social Security benefits and earnings. It also reflects today's dollars; therefore, you will need to re-calculate your retirement needs annually and as your salary and circumstances change. You may want to consider doing further analysis, either yourself using a more detailed worksheet or computer software or with the assistance of a financial planner. This worksheet was taken from the American Savings Education Council.

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