RETIREMENT SAVINGS: HOW MUCH IS ENOUGH?

Do you know your retirement number? Consider the factors that go into estimating your retirement savings goal and decide how much you'll need to live your retirement dream.

Without a goal in mind, saving for retirement can feel like running a marathon without a finish line—a constant and tiring struggle. Lacking a retirement savings objective can make it difficult to set up a realistic savings plan, determine a retirement budget or even accurately manage your retirement investments. Yet fewer than half of Americans reported that they or their spouse have tried to predict how much money they'll need for retirement, according to the Employee Benefit Research Institute's (EBRI) 2013 Retirement Confidence Survey. With all of the retirement estimates out there suggesting different ways to calculate how much you'll need (it's 12x your annual salary! No, it's 85 percent of your ending salary! No, it's 8x!), you can hardly blame people for being hesitant to settle on a number. It's true that there's no "magic number" for retirement saving; however, even setting a ballpark goal and a system for working toward it is crucial to the retirement planning process.

Factors in the Planning Process

The amount of variable factors in the retirement planning process make it impossible to predict a precise retirement income for everyone. However, by taking a closer look at these factors, some within your control, such as your retirement lifestyle, and some subject to outside influences, such as inflation, you can determine their effect on your retirement savings and more accurately predict what is "enough" for you to comfortably retire.

• Current Savings

The amount you currently have earmarked for retirement will affect the amount and the pace at which you need to continue to save. This may include money you put into funds directly for retirement, such as a 401(k) or an IRA, as well as personal savings accounts.

• Life expectancy

Predicting your own death may seem morbid, but having an idea of your life expectancy can help you determine how many years you need to plan for in retirement. According to the Social Security Administration (SSA), an American man at age 55 can expect to live, on average, an additional 28 years, and an American woman at age 55 can expect to live, on average, an additional 31 years. Since most people estimate their retirement savings based on how much they will use each year, it's important to know how long you will need to depend on these savings.

• Retirement age

Just as knowing your life expectancy is vital to your retirement timeline, so is choosing an age at which you hope to retire. If you want to retire by age 50, you will have a vastly different savings plan than someone who plans to retire at age 70, as that person will have 20 years of additional income to add to their savings. If you do want to retire at an early age, starting to save early is even more crucial; the more years you have between you and retirement, the less you'll have to save each month to reach your goal.

• Income

Not only how much you can afford to save but also the amount you should ultimately put away is highly dependent on your income. Most estimates for retirement savings are either a percentage or a multiple of your income, and generally, the lower your income, the higher a portion of it you will need to save. In addition to your regular income, you should consider any other forms of income you will have in retirement, such as Social Security or a pension. Your Social Security Statement, available through the SSA, provides an estimate of your retirement, survivor and disability benefits under current law and updates your latest reported earnings. You will receive a statement by mail once at age 25 as well as regularly once you reach age 60, provided you aren't already receiving Social Security benefits. For any other time you want to see a copy of your statement, the SSA has made these annual statements available online. To access yours, visit www.socialsecurity.gov/myaccount.

• Inflation

Unfortunately, the income you can comfortably live on during year one of your retirement may not cut it for year 10, simply due to inflation. As the cost of living rises, so must your estimates of how much income you'll need per year. Although inflation rates vary over time, it's always safest to assume a higher rate and save too much rather than assume a generous rate and find yourself with a shortfall.

• Investment returns

When calculating any savings you will incur from investment profits, you'll have to calculate the annual rate of return you expect to earn. This includes savings you've already accumulated as well as savings you intend to make in the future, including during your retirement. These calculations will largely depend on whether the money is inside a tax-deferred account. When estimating these rates, you'll will want to err on the side of being conservative.

• Retirement lifestyle
Especially if you are far away from retirement, it can be difficult to imagine what your life will look like during this unique time in your life. It's important to ask yourself things like the kinds of hobbies you expect to pursue, how much you want to travel, if you will pursue part-time work during this time and how frugal you realistically expect to be during this time. Although some costs, such as commuting costs, payroll taxes, retirement savings, mortgage payments, etc. will likely go down during retirement, you will also have more free time to spend your money during retirement. Even if you estimate everything else correctly, if you budget for a retirement lifestyle that's more conservative than the one you actually live, your savings may not be enough.

Deciding How Much to Save
After considering the above factors, you will ultimately have to decide how much of your preretirement income you will need to save to enjoy the standard of living you are used to. Popular estimates usually range from 70 to 90 percent or eight to 12 times your annual income. Once you have an overall goal and considered your planning factors, it should be much more feasible to calculate an amount to save each month and each year. Your financial advisor at McCarthy Grittinger can also help you to decide on an appropriate number.

It's important to reassess these factors every two to three years, as your retirement savings will have to change along with your lifestyle. It can help to set up checkpoints throughout your life to make sure you're still on track; for example, if you plan to save eight times your annual pre retirement salary by the time you retire, you could save one time your salary by age 35, three times your salary by age 45, five times your salary by age 55, etc. Estimating income needs for 30 to 40 years in the future can be difficult, but starting with a rough estimate and starting small is better than not starting at all.

Contact MG Financial Group today to learn more about our Retirement Planning Services.

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