

Get Your Retirement Reality Check

Do you have any idea of how much you need to save for the retirement lifestyle you envision? If not, you're like the majority of Americans who have never done the math. According to a retirement survey, only 47% of workers have tried to calculate how much money they will need for a comfortable retirement.¹

Even if your retirement seems a long way off, calculating your future income goal may help you become more serious about saving. In fact, 44% of people who have calculated a retirement savings goal made changes to their retirement plans, and of those almost two-thirds started to save more.²

A retirement needs calculation goes beyond the commonly suggested target to have 70% of pre-retirement income. Your personal financial situation, desired lifestyle, health status, and life expectancy must be taken into account for a more accurate picture of your retirement needs.

The familiar 70% figure usually assumes that all your major debts, including a mortgage, are paid off, and that your expenses in retirement will be lower than when you were working. Both assumptions may prove to be unrealistic. In the early years of retirement, some people may want to spend a significant amount of money on travel, the pursuit of their hobbies, and other leisure activities. In later years, health-care costs and possibly long-term care may eat away at a greater share of a retired couple's income.

After taking a closer look at their individual situations, some people might determine that they would be more comfortable living on 80%, 90%, or even 100% of their pre-retirement incomes. Once an income goal is established, they can calculate the savings they will need to accumulate to generate that level of retirement income.

Lifestyles of the Happily Retired

Here's how much a retiree would need to accumulate in order to generate various levels of income without spending down principal during retirement. Calculations assume a hypothetical 5% annual return.

Portfolio balance	\$1.5 million	\$2 million	\$2.5 million
Potential annual income	\$75,000	\$100,000	\$125,000

This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investments. Rates of return will vary over time. Fees, expenses, taxes, and the effects of inflation are not considered and would reduce the outcomes shown if they were included. Actual results will vary.

As you can see in this table, if a \$1.5 million portfolio earned a hypothetical 5% annual return, an investor could theoretically withdraw \$75,000 per year and never run out of money. If the portfolio earned less than 5%, or if the principal was also withdrawn, the money would not last indefinitely.

When determining your target retirement income, it's also important to think about the cumulative effects of inflation. If \$75,000 in today's dollars seems as though it would be enough, consider that the future purchasing power of that income would be significantly

diminished over a period of 10 to 20 years.

Fortunately, that same cumulative effect can also work in your favor. The sooner you begin saving for retirement, the longer your investment earnings will have to accumulate and multiply into the portfolio that you may eventually need.

1–2) 2008 Retirement Confidence Survey, Employee Benefit Research Institute

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