



# Exactly How Much You Need To Save For Retirement

By Investor's Business Daily

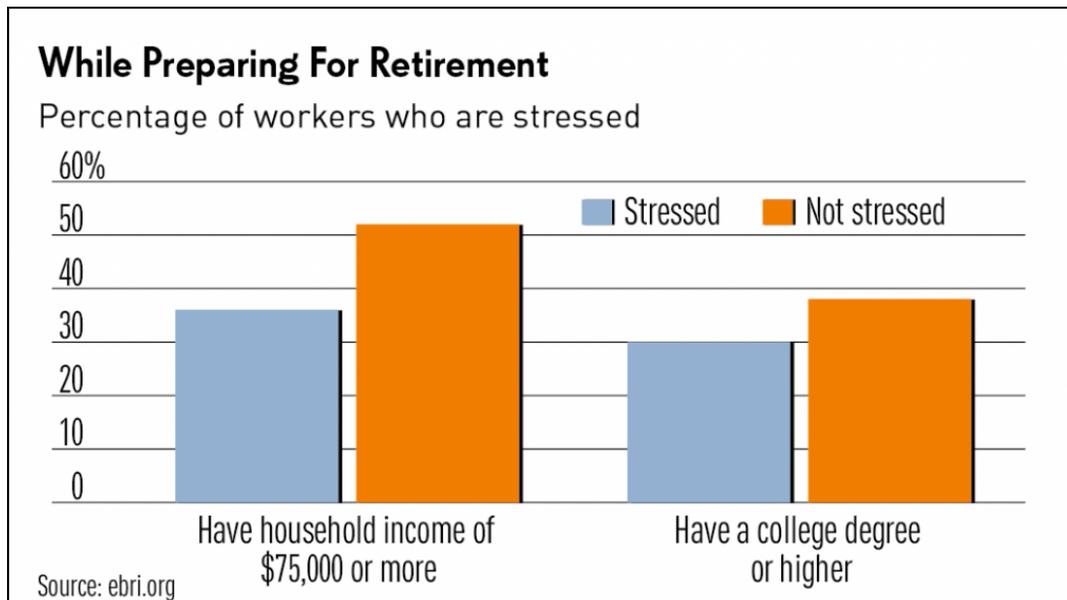


*Stressed about preparing for retirement? Many workers are, because they don't know how to figure out how much money they must save to retire comfortably. (Monkey Business Images/Shutterstock)*

You don't feel good about your prospects for affording a comfortable retirement? You're not alone. The percentage of workers who feel very or somewhat confident fell this year compared with last year, according to a new survey by the Employee Benefit Research Institute. And that gloomier outlook takes a toll. Nearly one-third — 31% — of workers feel mentally or emotionally stressed about preparing for retirement.

The good news is that you can do something about it — something practical, which can have a big beneficial impact. You can create a retirement savings plan. A key part of any retirement savings plan is nailing down how large your nest egg needs to be. And it's hard to do that unless you also nail down how much income you need each year in retirement. Here's the easy way to figure out those two key numbers — especially how big your combined retirement accounts must be.

And it's worth doing. Odds are, creating a retirement savings plan will make you nearly twice as likely to not feel retirement savings stress. Forty-three percent of workers without a plan feel stressed, while just 26% of workers with one feel stressed about retirement preparation, according to EBRI's new Retirement Confidence Survey.



Step one is figuring out how much money you need in retirement. Make a budget, including your fixed costs like mortgage or rent, utilities and health insurance. Then add in your discretionary spending for food, entertainment and so on. Suppose after putting together a budget you calculate that you need \$80,000 a year to cover expenses.

Where will you get that much money? Some will come from your Social Security benefit. You can find calculators online that will help you estimate your eventual monthly check. None can guarantee an exact forecast. Even the calculator at [ssa.gov](http://ssa.gov) provides only an estimate because of factors like your future earnings, possible law changes and the wobbly health of the Social Security system.

Still, online estimates are useful. The maximum monthly benefit that you can be for 2017 would be \$3,538, according to the Social Security Administration, which would amount to \$42,456 this year.

But let's say you won't be entitled to that much, based on your income over your career. Suppose your benefit will be somewhere between that maximum and the national average. This year, that's \$1,360 a month, or \$16,320 for the year.

The halfway point between this year's maximum and this year's national average benefit is \$2,449 per month, which would come to \$29,388 for the whole year. So your non-Social Security income would have to be \$50,612: \$80,000 minus \$29,388.

For the sake of describing how to crunch your own numbers, let's say all of that non-Social Security income will have to come from your retirement savings because you do not have a traditional pension benefit. That's where the [mutual funds](#), [ETFs](#) and stocks and bonds in your 401(k) account and IRA come in.

How large must your retirement savings be to generate \$50,612 a year?

"Let's say you decide to withdraw 4% of your balances a year to do that," said Eric Aanes, president of Titus Wealth Management, in Larkspur, Calif., north of San Francisco. Aanes is citing the 4% rule, which is a popular annual cap on retirement account withdrawals.

So, with a hand calculator — or maybe an app on your smartphone — you can calculate how large your nest egg has to be to let you withdraw 4% in the first year if that withdrawal amounts to \$50,612. The answer: \$1,265,300.

In other words, \$50,612 is 4% of what? It's 4% of \$1,265,300.

If you have 10 years until you retire and assume a 10% return on your investment, you can reach your goal if you invest \$79,392 to work. That's a tough nut to crack. If you have 25 years until retirement, you'll need to sock away \$12,866 a year. That's about 16% of an \$80,000-a-year salary. Doable — but you better get busy.

"Once you make a budget, figure out how much you need each year in retirement," said Skip Johnson, partner of Great Waters Financial, which has five offices in Minnesota. "Then you can work backwards to figure out how much you need in total retirement savings to generate your yearly retirement budget in income."

That eliminates a major source of uncertainty that can cloud your retirement planning. Replacing that uncertainty with clarity is a key to avoiding unnecessary stress as you plan for an affordable, comfortable retirement.