What's Your Retirement Number?

How to calculate what you'll need so you can keep living the way you want.

By Russell Wild, MBA

"SAVING, SAVING, SAVING." That's how Paul Stoloff, 55, Farmington Hills, Michigan, describes his retirement plan.

If he can save enough by the time he's 60, Stoloff can see himself quitting his day job at Chrysler. But will he be able to save enough? And just how much would "enough" be? Stoloff, despite his mechanical engineering skills, doesn't know. "I should, but I haven't really run the numbers," he admits.

Stoloff is both unusual and usual—unusual in that few Americans have been "saving, saving, saving," but usual in his admission that he has yet to run the retirement numbers. According to a recent survey done by the Employee Benefit Research Institute (EBRI), only about four in 10 workers have ever actually tried to calculate how much money they will need to have saved by the time they retire.

Why is that? For some, no doubt, retirement seems simply too far away—so why even bother thinking about it? For others, "They are probably too scared to do the math," says Jim Otar, CFP, a financial advisor based in Ontario.

You've heard that ignorance is bliss, but you may not wind up so blissful if you get to the age at which you wish to retire and suddenly realize that the bills aren't going to pay themselves. So please consider rolling up your sleeves and joining us for just a few moments of quick and simple arithmetic.

This exercise boils down to subtracting your estimated expenses from your estimated income. The math is easy. Doing the estimating is the tricky part.

No one can read the future, but to give yourself a clue, look at how much you're living on today and figure you'll probably be spending a bit less. After all, you'll likely be putting fewer dollars into the gas tank, having fewer lunches out, your kids may have finished college and left the nest, and your house may be paid for. Your tax hit should also be less—partly because your income should be lower and partly because investment and pension income is typically taxed less heavily than earned income. Also, you're no longer saving for retirement!

On the other hand, some costs may go up; you might find yourself spending more for travel and recreation, and—if health problems crop up—more on medical costs not covered by Medicare.

For a ballpark estimate, most people find that they need somewhere between 70 and 90 percent of their pre-retirement annual income. For a more precise number, tally up your costs below.

YOUR EXPENSES

My Estimated Monthly Costs at Retirement for:

- Food ______
- Clothing ______
- Housing (rent/mortgage) ______
- Utilities ______
- Insurance (home, auto, life, medical, long-term care) ______
- Transportation (car payment, bus, train) ______
- Taxes ______
- Gifts ______
- Recreation ______
- Leisure travel ______
- Cable and phone service ______
- Household maintenance ______
- Debt payoffs (other than mortgage) ______
- Miscellaneous ______
  - **Total monthly expenses** ______
  - **Total annual expenses (Monthly expenses x 12)** ______

YOUR INCOME

Calculating money coming in is usually a lot simpler than estimating expenses. Let's run those numbers.

My Estimated Monthly Income at Retirement is:

- My Social Security ______
  (If you don't know your S.S. payout, go to socialsecurity.gov/estimator.)
- Spouse's Social Security ______
- Part-time work ______
- Pension or annuity income ______
- Rents or other sources ______
  - **Total monthly income** ______
  - **Total annual income (Monthly income x 12)** ______

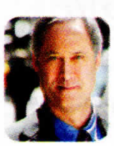
Ready to do the math? Subtract your annual expenses from your annual income. The result for most people is a negative number or shortfall. This is the amount you'll have to contribute from your own savings each year, as shown in the equation below:

INCOME – EXPENSES = SHORTFALL

For instance, if you think you will need $50,000 a year to live comfortably and you expect to receive $20,000 a year from Social Security and other income, you will have to pull $30,000 a year from your nest egg ($50,000 - $20,000 = $30,000).

Multiply your shortfall by 25 to get your minimum target retirement portfolio (assuming you wish to retire in your mid-60s). In the case above, you would multiply $30,000 by 25 and come up with $750,000. Why 25? Because that would allow you to pull 4 percent a year from your savings, and—provided you have a well-balanced portfolio—your savings, studies show, will have good chance of lasting as long as you do—at least 30 years.

For a quick guide to retirement calculators, visit saturdayeveningpost.com/retirementcalculators.



Russell Wild, MBA, is a NAPFA-registered financial advisor who has written and co-authored nearly two dozen books including his most recent, *One Year to an Organized Financial Life.*