

# How Much Do I Need to Retire?

 [thepennyhoarder.com/retirement/how-much-do-i-need-to-retire/](https://thepennyhoarder.com/retirement/how-much-do-i-need-to-retire/)

September 5, 2019

by Tiffani Sherman

Contributor

Want to stop working someday and retire? It takes money to make that happen. If you don't know how much you will need, you're in the majority.

A 2019 study from Northwestern Mutual that polled 2,003 American adults found that 56% didn't know how much money they'll need to retire. The same study found that 22% had less than \$5,000 saved, and 15% of those surveyed had no retirement savings at all.

"I think most people have a tough time planning 20 and 30 years out, which is why most people don't do it," said Andrew Barnett, a certified financial planner with GFA Wealth Design based in Fort Myers, Florida. "Most people put it off, because it's something that's so far out. They say well, I'll save next year."

When you do a quick search, the numbers \$1 million to \$1.5 million or 10 to 12 times your current income float around a lot as how much most people will need to save to retire comfortably.

What you need will depend on when you plan to retire. Traditional retirement age is 65 to 67. If that is your targeted age, plan on funding your retirement for about 25 to 30 years. If there is a family history of longevity, make sure to plan for longer, maybe even to age 100 or beyond.

The ultimate goal is to save enough so you can withdraw a portion each year and keep the rest invested and growing to fund future years. If you withdraw about 4% annually, you should not be significantly impacting the principal since it is hopefully earning more than 4%.

There are several well-known formulas, rules and guidelines to help you figure out how much you might need to save, including:

- **25 times rule:** Take your annual expenses and multiply them by 25.
- **70%-80% rule:** Many experts say you will need about 70% to 80% of your average income during your working years annually to fund your retirement.
- **15% rule:** If you start at the beginning of a career, saving 15% of income should be enough to fund your retirement.

Barnett is not a big fan of hard and fast rules.

"I don't really know where those numbers come from," he said. "They come from every article that you read, experts say X percent. But everybody's different, which is why I would advise anybody to do a budget, figure out what they spend and on what, and then draw your own conclusions about what you need in retirement."

Do. Not. Panic.

Those numbers are guidelines and might not be what works for you. There is no magic number that is the perfect target for everyone's retirement. The amount is based on several factors.

- **The age you plan to retire.** There is a big difference between retiring in your 40s and your 70s.
- **Where you live.** Some places have a higher cost of living than others. Several states have no state income taxes.
- **Health care costs:** These will likely increase as you age, even with Medicare. Dental and long-term care are not part of Medicare.
- **Current age and life expectancy:** It is easy to underestimate how long you might live.
- **Savings and spending habits.**
- **Future markets and investment performance.**

To answer the "how much do I need to retire?" question, you need to figure out what you want out of your retirement.

"I ask [new clients] to tell me a little bit what their vision of retirement is first, before we get to the money stuff," Barnett said. "[I ask] what does retirement look like [to you], do you want to keep working, do you want to work part time, do you want to play golf, do you want to travel the world, do you want to eat Burger King or caviar?"

Barnett also asks these basic questions when he works with new clients:

- When would you like to retire?
- How much does it cost you to live?
- What have you saved so far?
- What other sources of income will you have in retirement?

"If you know those basic things, you can give somebody a pretty clear picture of what they would be capable of doing in retirement," Barnett said.

There are several online calculators that will help you figure out how much you will need. To use them, you will need simple information like your age, pre-tax income, the current amount you have saved, and how much you currently save on a monthly basis.

Once you plug in the numbers, the calculators will show you whether or not you are on track. Since many of these online tools are linked to specific financial companies, the advice they give will be based on the products they have.

Barnett has a warning, though: "The problems that I see with those calculators is that they're oftentimes a little bit simplistic and they miss things like inflation and taxes," he said. "And they ask you things like how much have you saved, but they don't ask you what type of savings."

That matters because many retirement accounts grow tax-free, while others are funded with after-tax money. Most calculators also do not ask about when you plan to start collecting Social Security and your longevity, Barnett added.

## A Guide to Estimating Your Future Needs

---

A good place to start when figuring out how much you might need in the future is to track what you spend now.

Look at how much you spend for:

- Housing
- Transportation
- Taxes
- Insurance
- Food
- Clothing
- Personal care
- Travel
- Entertainment
- Health care

“Get your bank statement out and look at all the pluses every month, and add up all the minuses every month,” Barnett said. “Do that for three months in a row and you have a pretty good handle on what you’re what you’re doing, what comes in and what goes out.”

Now think about what you want to change when you retire. Do you want to travel more? Buy a property? Eat out more? Add those amounts to your current spending. Also, add money for irregular expenses, like home and vehicle repairs.

Now, take away things you will no longer need to do when you are retired. You won’t be setting aside money for retirement anymore since you’ll already be retired. You might have your mortgage paid off, so that will not be an expense. If you won’t be working at all, you won’t have payroll taxes to pay. However, you will be taxed on money you take out of your 401(k) and some other retirement accounts.

Once you know your monthly expenses, you can begin to figure out how much you need to save to give yourself at least that much when you retire.

Remember, the replacement income can come from a variety of places, not just savings and retirement accounts. Other sources include Social Security, part-time work, pensions and rental income.

If you have worked outside the home, use the Social Security Administration’s calculator to figure out how much your estimated benefit will be when you retire. To use this calculator, you will need to create an online account.

## How to Save for Retirement

---

The 401(k) is the most popular way to save for retirement, mostly because it is an employment benefit and many employers offer a match of the amount an employee contributes.

In a June 2019 survey, Charles Schwab surveyed 1,000 401(k) participants ages 25 to 70 and found that 65% of respondents said contributing to a 401(k) is their first experience with investing. Other findings:

- Half said they are contributing 10% or less of their salaries to their 401(k)s.
- 33% said they were auto-enrolled in their 401(k) and have never increased their contribution rates.

- 44% have never changed their investment selections.
- 18% said their 401(k) was the only way they were saving for retirement.

Many people enroll in their 401(k) and forget it, thinking it doesn't need attention. But the leave-it-alone strategy usually isn't the best way to grow your money.

Barnett recommends increasing your contributions as your earnings increase and checking in on your accounts at least once a year to make sure they're on track.

There are other options to help save for retirement in addition to a personal or company 401(k), or 403(b) if you work for a public school, tax-exempt organization or ministry, including:

If you're young, just starting your career, and are reading this, congrats. You're in the best position you can be in. If you start putting away money now for your retirement, you should be in good shape. But no matter how old you are, it's never too late to start saving for retirement.

*Tiffani Sherman is a Florida-based freelance reporter with more than 25 years of experience writing about a variety of topics, including finance, health and travel. She likes to save money so she can travel more.*