Calculating Your Retirement Needs
Formula and Worksheet

If you are approaching retirement age, or are just beginning to plan for it, you might be interested to learn that retirement may require 70%-90% of your current annual income in order for you to maintain the quality of life you presently enjoy (American Savings Education Council (ASEC), 2003). Setting goals—such as where you might like to live and the activities you plan to pursue—is an important factor in any savings plan. How do you determine the total amount needed for retirement, and calculate the amount of savings you'll need to accrue each year? The worksheet below will help you answer these questions, based on calculations developed by the ASEC.

As an example to help you along the way, consider the hypothetical case of Henry Foster: At age 50, Henry earns $50,000 per year. He estimates that during retirement he'll need 70% of his income ($35,000 per year) to maintain his current standard of living. While he does not have a traditional employer pension, he does expect to earn $5,000 annually as a part-time writer. In addition, he estimates he'll receive approximately $14,500 annually from Social Security.

1. **Required Income.** How much money will *you* require per year in order to live the lifestyle to which you have grown accustomed? Enter 70% of your current annual income as a basic minimum.
2. **Social Security.** Project the amount you expect to receive from Social Security. Obtaining a Social Security statement from the Social Security Administration (SSA) will enable you to enter a more accurate estimate. You can obtain a statement by calling 800-772-1213 or on the web, at www.ssa.gov. For a rough estimate, enter $8,000 if you earn less than $25,000; $12,000 if you earn between $25,000 - $40,000; or $14,500 if you earn $40,000 or more. If you are married and earn less than your spouse, enter the greater of either your own benefit or 50% of your spouse's benefit.
3. **Traditional Employer Pension.** Enter the amount you expect to receive in today's dollars.
4. **Earned Income.** Enter your estimated annual part-time income.
5. **Retirement Shortfall.** *Subtract* lines 2, 3, and 4 from line 1. This is an estimate of the amount of money you'll need from savings each year, in addition to the above sources of income.

Now that you've determined the amount you'll need in retirement, as well as your shortfall, it's time to figure out how much you'll need to save. Assuming a 3% constant real rate of return after inflation, a life expectancy of age 87, and Social Security benefits beginning at age 65, performing the following calculations can help you estimate the total amount you'll need on your retirement day. These calculations do not represent the performance of any particular savings vehicle, and are for illustrative purposes only. Bear in mind that the **full retirement age** (the age at which one is eligible to receive full Social Security benefits) is gradually increasing to age 67 for individuals born in 1960 and later.

For comparison purposes, let's return to Henry Foster, who plans on retiring in 15 years at age 65 and has managed to save $45,000. Based on his income requirements and his income resources, Henry will need to save a total of $254,200 by retirement, or $9,474.40 per year.

6. To estimate how much you need to save, *multiply* line 5 (the amount of your retirement shortfall) by the appropriate factor below:

Anticipated retirement age:	55	Multiply by:	21.0
	60		18.9
	65		16.4
	70		13.6

7. Enter the current total of your savings including any funds in retirement plans such as a **401(k)** or **Individual Retirement Account(IRA).**

8. *Multiply* line 7 by the appropriate factor:

Retiring in:	10 years	Multiply by:	1.3
	15 years		1.6
	20 years		1.8
	25 years		2.1
	30 years		2.4
	35 years		2.8
	40 years		3.3

9. *Subtract* line 8 from line 6 to reach the estimated amount of savings needed at retirement

10. To estimate the amount you need to save each year *multiply* line 9 by the appropriate figure below:

Retiring in:	10 years	Multiply by:	.085
	15 years		.052
	20 years		.036
	25 years		.027
	30 years		.020
	35 years		.016
	40 years		.013

(Source: ASEC, 2003)

This worksheet is intended to be used as a starting point estimate of what you will need to save for a financially secure retirement. For specific guidance, consult a financial professional. Learning what you must save in order to reach your retirement goals is an important aspect of retirement planning, and the sooner you do so, the closer you will be to fulfilling your dreams.

Your Figures _____
Henry's Figures _____

1. $_____
   $35,000
2. $_____
   $14,500
3. $_____
   $0
4. $_____
   $5,000
5. $_____
   $15,500
6. $_____
   $254,200
7. $_____
   $45,000
8. $_____
   $72,000
9. $_____
   $182,200
10. $_____
    $9,474.40