University of Nebraska - Lincoln
DigitalCommons@University of Nebraska - Lincoln

Historical Materials from University of Nebraska-Lincoln Extension

Extension

1-1-1998

NF98-379 Ballpark Estimate of Retirement Financial Needs

Kathy Prochaska-Cue
University of Nebraska--Lincoln, kprochaska-cue1@unl.edu

Follow this and additional works at: http://digitalcommons.unl.edu/extensionhist

Part of the Agriculture Commons, and the Curriculum and Instruction Commons

Prochaska-Cue, Kathy, "NF98-379 Ballpark Estimate of Retirement Financial Needs" (1998). *Historical Materials from University of Nebraska-Lincoln Extension.* Paper 1037.
http://digitalcommons.unl.edu/extensionhist/1037

This Article is brought to you for free and open access by the Extension at DigitalCommons@University of Nebraska - Lincoln. It has been accepted for inclusion in Historical Materials from University of Nebraska-Lincoln Extension by an authorized administrator of DigitalCommons@University of Nebraska - Lincoln.

NF98-379

NebFact

Published by Cooperative Extension, Institute of Agriculture and Natural Resources, University of Nebraska-Lincoln

Ballpark Estimate of Retirement Financial Needs

Adapted by Kathy Prochaska-Cue, Extension Family Economist[1]

Only 36 percent of workers have tried to determine how much they'll need to save for a comfortable retirement, says the seventh annual Retirement Confidence Survey sponsored by the American Savings Education Council (ASEC), the Employee Benefit Research Institute, and Matthew Greenwald & Associates. Of those who have tried, 24 percent of them still don't know how much they'd need to be secure in retirement.

To help plan retirement income, ASEC has developed a ***Ballpark Estimate Worksheet***. The worksheet simplifies the process of determining how much you need to save assuming you want 70 percent of current income, you live to age 87, and you realize a constant real rate of annual return of 3 percent after inflation.

For example, Ann, a 35-year-old working woman, earns $30,000 per year. To estimate her retirement needs using the ***Ballpark Estimate***, Ann multiplies her current income by 70 percent to get $21,000 as what she will need. She writes that figure in **line 1**. Since her income is $30,000, she uses $12,000 as an annual estimate of her Social Security income (**line 2a**). She expects no additional income, so she leaves **lines 2b and 2c** blank. To find out what amount she needs from other sources each year, she subtracts her expected income from her needed income ($21,000 minus $12,000 = $9,000), and puts that figure on **line 2d**.

To find out how much she needs to save to have $9,000 each year, Jane first determines she expects to retire at age 65. In checking the table in **section 3**, she finds her multiplier factor for a retirement age of 65 is 16.4. She multiplies $9,000 by 16.4 to determine she needs to save a total of $147,600 (**line 3**). She does not expect to retire before age 65 so she leaves line **4 blank**.

Ann has saved $2,000 in her 401(k) plan. Since she plans to retire in 30 years, she multiplies her savings by the factor for 30 years in section 5 to get $4,800 (**line 5a**). She subtracts this $4,800 from the total amount she needs ($147,600) to find out how much she needs yet to save for retirement ($142,800 from **line 5b**). To determine what she needs to save annually to get this amount, she multiplies $142,800 by

the factor for 30 years (0.20) in **section 6**. She finds she needs to save $2,856 each year for the next 30 years to reach her goal of $142,800.

Remember the assumptions noted earlier? Just one minor change can make a big difference in the bottom-line. ASED suggests re-calculating retirement needs annually. ***Ballpark Estimate*** is just that, not a final calculation of retirement needs. And, the closer you are to retirement, the less helpful such ballpark figures will be. Seek the assistance of a qualified financial professional for a more detailed analysis.

Get a free copy of two ASEC publications, The Power to Choose and How Do I Get There From Here? by sending a self-addressed, stamped (78 cents in July 1998), business-size envelope to ASEC, address in footnote below.

Ballpark E$timate of Retirement Needs

This worksheet will give you an idea of the savings you'll need when you do retire.

1	**How much annual income will you need in retirement?** (To maintain your current level of living, multiply current annual income by **.70**.)	$_____ (1)
2	**Subtract the income you expect to receive annually from:** **Social Security**. If you make **under $25,000**, enter $8,000; **$25,00 - $40,000**, enter $12,000; **over $40,000**, enter $14,500.	$-_____ (2a)
	Traditional employer pension, a plan that pays a set dollar amount for life, depending on salary and years of service (in today's dollars)	$-_____ (2b)
	Other (part-time job, self-employment, investments, gifts, etc.)	$-_____ (2c)
	Total amount needed for each retirement year (line 1 minus 2a, 2b, 2c)	$_____ (2d)

Next estimate how much money you need to save by retirement to provide what you'll need each year. Assumptions include you'll realize a constant real rate of return of 3% after inflation, live to age 87, and begin to receive income from Social Security at age 65.

3 To **determine the total amount you need to save**, multiply the amount you need for each retirement year (**line 2d**) by the factor below. $_____ (3)

Age you expect to retire:	**Your factor is:**
55	21.0
60	18.9
65	16.4
70	13.6

4 If you **expect to retire before age 65**, multiply your Social Security benefit from line 2a by the factor below. $+_____ (4)

Age you expect to retire:	**Your factor is:**
55	8.8
60	4.7

5 Multiply what **retirement savings you now have** by the factor below (money accumulated in a 401(k), IRA, or similar retirement plan). $-_____ (5a)

If you want to retire in:	**Your factor is:**
10 years	1.3
15	1.6
20	1.8
25	2.1
30	2.4

35	2.8
40	3.3

Total savings needed at retirement (line 3 plus line 4 minus line 5a): $+_____ (5b)

Don't panic. Figure compounding since not only will money earn interest, but interest will earn interest!

6 To determine the **annual amount you'll need to save**, multiply the total amount you'll need (**line 5b**) by the factor below. $+_____ (6)

If you want to retire in:	**Your factor is:**
10 years	.085
15	.052
20	.036
25	.027
30	.020
35	.016
40	.013

The sooner you get started, the better off you'll be at retirement. Good luck!

[1]Adapted with permission from "Get a Ballpark Estimate of Your Retirement Needs." (1998). American Savings Education Council, Suite 600, 2121 K Street NW, Washington, DC 20037-1896, Tel: (202) 775-9130, www.asec.org.

File NF379 under: HOME MANAGEMENT
B-5a, Retirement
Issued August 1998

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Elbert C. Dickey, Director of Cooperative Extension, University of Nebraska, Institute of Agriculture and Natural Resources.

University of Nebraska Cooperative Extension educational programs abide with the non-discrimination policies of the University of Nebraska-Lincoln and the United States Department of Agriculture.