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NF98-379 Ballpark Estimate of Retirement Financial Needs

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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:　　$-_____ (2a)
Social Security. If you make **under $25,000**, enter $8,000; **$25,00 - $40,000**, enter $12,000; **over $40,000**, enter $14,500.

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:	55	**Your factor is:**	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:	55	**Your factor is:**	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:	10 years	**Your factor is:**	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 $+_____ (6)
amount you'll need (**line 5b**) by the factor below.

If you want to retire in:	10 years	**Your factor is:**	.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!

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