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

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NF98-379

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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.

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