

Estimating Retirement Income

Medical advances are enabling many people to enjoy active lives well into their eighties and nineties. While many dream of living a long, healthy life, no one wants this dream to turn into a nightmare of struggling to make ends meet because retirement savings have been depleted.

In order to enjoy a long retirement, you need to save enough money. But how much is enough? No one knows exactly what future prices will be or how long you will live after you retire. But you can figure out approximately how much you will need by filling out the accompanying worksheet. Then you can adjust your retirement savings accordingly.

Retirement Income Needed

According to many retirement planners, you should be able to live comfortably on about 80% of your preretirement income. The theory is that eliminating work-related costs will reduce your income needs.

If you will be retiring soon and are eligible, you can anticipate receiving Social Security payments. In 2014, the estimated average monthly payment is \$1,294 (\$15,528 annually), which can be subtracted from your retirement income need for purposes of this exercise.

How much income you will need also depends on inflation and the number of years until you retire. Actual inflation may be higher or lower, but the accompanying chart uses a 4% annual inflation assumption. Choose the inflation factor from the chart that corresponds to the number of years before you retire. Then multiply that factor by the income figure you just calculated to find the yearly income you may need to take from personal savings and investments.

Total Savings Needed

Next, you need to determine approximately how much you should save. For this worksheet, we've made three assumptions: a 4% annual rate of inflation, a 7% annual return on your retirement investments, and a 20-year-long retirement. Of course, the actual rate of inflation, the investment returns you achieve, and the length of your retirement all may be different.

To figure out the total amount you should save for retirement, multiply your annual retirement income need by 15. Do you already own assets that you will be able to use for some of your retirement income? To estimate how much the assets will be worth when you retire, multiply the value of your current assets by the growth factor from the chart that corresponds to the number of years before you retire.

Finally, subtract the estimated value of your current assets from the total savings needed. This will give you the approximate amount you need to save for retirement. To figure out how much you need to save each year, divide the amount you need to save for retirement by the savings factor that corresponds to the number of years you have before retirement. Then divide by 12 to figure a monthly savings amount.

Are You Saving Enough?

While this is just a rough estimate of your retirement savings needs, it will give you an indication of whether or not you are on the right track. If yes, terrific. Keep doing what you're doing. If not, it's never too late to start saving more for retirement. Make the necessary changes today so that your retirement will be a dream come true.

Inflation, Growth & Savings Factors

Years Until Retirement	Inflation Factor 4% annual inflation	Growth Factor 7% annual return	Savings Factor 7% annual return
5	1.22	1.40	5.75
10	1.48	1.97	13.82
15	1.80	2.76	25.13
20	2.19	3.87	41.00
25	2.67	5.43	63.25
30	3.24	7.61	94.46
35	3.95	10.68	138.24

This chart is for illustrative purposes only. The actual annual rate of inflation and your annual rate of return will be different. Source: NPI

How Much Should You Save?

	Example	Yours
Current Annual Income	\$35,000	_____
	× 80%	× 80%
	\$28,000	_____
Minus Social Security (2014 average annual payment)	– \$15,528	– _____
	\$12,472	_____
Inflation Factor	× 3.24	× _____
Retirement Income Needed (from personal savings & investments)	\$40,409	_____
	× 15	× 15
Savings Necessary	\$606,139	_____
Value of Current Assets	\$50,000	_____
Growth Factor	× 7.61	× _____
Estimated Future Value of Current Assets	\$380,500	_____
Total Savings Needed (Necessary savings minus future value of current assets)	\$225,639	_____
Savings factor	÷ 94.46	÷ _____
Annual Amount You Need To Save	\$2,389	_____
	÷ 12	÷ 12
Monthly Amount You Need To Save	\$199	_____

This worksheet only provides a rough estimate of your needs and savings contributions. You may need to save more or less than this estimate. The example is for illustrative purposes and assumes 30 years until retirement.

Source: NPI