

FINANCIAL BUILDING BLOCKS BY HUB

Determining How Much to Save

Your **retirement income gap** is the difference between what you're currently tracking to have and the amount that you will actually need for a comfortable retirement.

ESTIMATING YOUR GAP

The goal here is to simply establish a starting point. It is not meant to stress you out or add fear to your retirement planning! To complete this worksheet you will need a pencil, a calculator, and your latest savings account statements.

- 1 How much income will you need in retirement?**
 Many experts suggest you will need 80% to 90% of your working income to live comfortably in retirement. Depending on your own personal situation, you may want to multiply your current income by more or less than this range.
- 2 Subtract the income you expect to receive annually from Social Security**
 If you currently earn \$25,000, enter \$14,904.
 If you currently earn \$35,000, enter \$18,096.
 If you currently earn \$45,000, enter \$21,288.
 If you currently earn \$55,000, enter \$24,492.
 If you currently earn \$65,000, enter \$27,672.

 To determine what you can expect from Social Security with your exact salary, go to:
<http://www.socialsecurity.gov/OACT/quickcalc/>
- 3 Subtract any other income sources**
 This could include any pension plan or rental property income that you may have or anticipated part-time income that you earn when you retire. Enter amount in today's dollars.
- 4 The total is your retirement income gap** — the amount of income your savings will need to produce each year in order to maintain your current standard of living.

YOUR RETIREMENT INCOME GAP	
You	Example
	Age 32 Earns \$35,000/year Lives to be 87 Has \$5,000 saved
\$ _____	1 \$ <u>31,500</u> 90% of \$35,000
\$ _____	2 \$ <u>-18,096</u> Earns \$35,000
\$ _____	3 \$ <u>-0</u> No other income
\$ _____	4 \$ <u>13,404</u> \$31,500 - \$18,096 = \$13,404
	<i>This is your retirement income gap</i>

This worksheet simplifies several retirement issues, such as projected Social Security benefits and earnings assumptions on savings. It also reflects today's situation. Reinventing Retirement is about managing your retirement income gap and the assumptions you make. You will definitely want to revisit this calculation at least annually as your salary and circumstances change.

WHAT WILL IT TAKE TO CLOSE THE GAP?

Next, you must estimate how much you need in savings the day you start your new life as a retiree. This is your nest egg needed to produce enough income to make up for the retirement income gap.

5 Estimate the size of the nest egg you will need

After you retire, if you expect to live:

20 years, multiply your retirement income gap (line 4) by **14.3**

25 years, multiply your retirement income gap (line 4) by **16.5**

30 years, multiply your retirement income gap (line 4) by **18.3**

6 Take credit for what you have saved so far

Multiply any savings to-date by the appropriate factor below. Include any money you have in retirement plans, and any IRAs.

Years to Retirement:	6	8	10	12	14	16
Multiply by:	1.27	1.37	1.48	1.60	1.73	1.87
Years to Retirement:	18	20	25	30	35	40
Multiply by:	2.03	2.19	2.67	3.24	3.95	4.80

7 Subtract line 6 from line 5

The result is the remaining nest egg to accumulate.

8 Figure the annual savings required to meet your goal

Multiply the total from line 7 by the appropriate factor below.

Years to Retirement:	6	8	10	12	14	16
Multiply by:	.151	.109	.083	.067	.055	.046
Years to Retirement:	18	20	25	30	35	40
Multiply by:	.039	.034	.024	.018	.014	.011

9 Calculate the percent you should contribute to your plan

Divide the number on line 8 by your annual pay, then multiply by 100 to see the percent to contribute. Round your percentage to the nearest whole number.

The factors used in this worksheet were developed by actuaries (people who crunch numbers for a living). Using these factors simplifies the amount of work you'll have to do. These factors assume only a what-if scenario in which you hypothetically earn an average annual rate of return equivalent to 8%. Also, these factors assume that the annual inflation rate will be 4%. These rates of return do not reflect any specific investment or savings strategy. In the real world, most retirement investments will move up and down with the market over time, producing higher or lower actual returns. Your returns are not guaranteed.

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CLOSE THE GAP

You

Example

		Age 32
		Earns \$35,000/year
		Lives to be 87
		Has \$5,000 saved
\$ _____	5	\$ <u>191,677</u> \$13,404 (line 4) multiplied by 14.3
\$ _____	6	\$ <u>19,750</u> \$5,000 saved multiplied by 3.95 (35 years to retire)
\$ _____	7	\$ <u>171,927</u> \$191,677 - \$19,750
\$ _____	8	\$ <u>2,407</u> \$171,927 (line 7) multiplied by .014 (35 years to retire)
_____ %	9	<u>7</u> % \$2,407 ÷ \$35,000 = .0688 .0688 X 100 = 6.88% 6.88% rounds to = 7%