

# How much money do you need in retirement?



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As you plan this year's vacation to a white sandy beach, a new city, or a theme park, think about the vacations you would like to take now. Are these vacations something you would like to continue to take once you're retired? For many, the idea of travel in retirement is a common dream.

## How will you pay for travel when you retire?

Hopefully, you will have built a "nest egg" to pay for these things. Why is the nest egg important? When you retire, your paycheck stops. Let's think about that. What happens today if your paycheck stops? If you lose your paycheck now, while you are working, you might apply

for unemployment, and the government may pay you some portion of your income. Typically, this is less (sometimes a lot less) than you were earning when you were employed. A similar thing happens when you retire. You lose your paycheck, and you apply for Social Security (if you are covered by and eligible for social security). This will result in a monthly payment to you, but like unemployment, it typically will pay you less than what you were earning when you worked. Ask your parents or grandparents if social security alone is enough. They will likely tell you "no"! They may even encourage you or validate that you need to be saving money today for your future so that you don't have to live only on Social Security.



The younger you are when you start building that nest egg, the easier it will be to build the retirement of your dreams.

- If you start in your 20s, you may only need to save between 5-10% of your income.
- Waiting until your 40s increases that to 10-20% of your income or even more.

Once you retire, your nest egg will not only need to cover living expenses and healthcare, but also your fun like vacations and entertainment. How much money do you really need in retirement? Roughly 15 to 20 times your annual pay the year you retire. If you retire at today's average retirement age, which is around 66 or 67, you are expected to live into your 80s. Let's say that your salary is \$80,000 the year you retire. You will want to have \$1,600,000 in retirement savings. If you can rely on a pension or social security for additional income, that savings amount may less.

How can you figure the right amount to save now?

- Retirement calculators, either from your 401(k) provider or free online, can help determine the amount you will need.
- These calculators often do not include your current savings, pension income and social security. A financial advisor may be better able to assist you with developing a retirement plan.

- An important note: All retirement calculators estimate the growth of your savings using a projected investment return. The reality is that no one can predict future growth or expected return on investments. If they calculate a 10% return and you only earn 5%, the estimated value will be substantially different.



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### What impacts my rate of return on my investments?

Your return on investment depends largely on your mix of stocks and bonds. As you age, it's normal to be more conservative in your investments. To keep on track, you will need to update your retirement plan on a regular basis because these variables can have a huge impact on your savings. Plus, what if you outlive your savings?

Proper planning with a financial advisor is your best solution in developing a comprehensive retirement plan. A good financial advisor has the expertise and experience to know the right questions to ask to get a complete picture of your retirement goals. Using sophisticated planning tools, they can guide you through a risk tolerance analysis to determine the proper risk level for your portfolio. And help you avoid outliving your retirement savings!

At My Financial Advisor, we provide fee-only planning and investment management, and can provide you with a plan to get you on track to meeting your goals. Contact us at [karin@myfinancialadvisor.org](mailto:karin@myfinancialadvisor.org) for a no-cost, no-obligation consultation.



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