

# Your Employee Benefits

## How much should you save for retirement?

By Liz Davidson

The question on every worker's mind is: How much money do I need to live the retirement lifestyle I dream of?

If endless hours of reading, cooking, and the great outdoors is what you envision, maybe you won't need a huge fortune. If, on the other hand, Caribbean cruises and country club dinners are more your style, a fortune could be exactly what you'll need. In either case, a reasonable estimate of your income needs will help guide your retirement planning decisions.

How much is enough?

Your retirement "bottom line" obviously will depend on your income and expenses. Obviously, the more income you have in retirement and the lower your expenses, the greater the possibility of making ends meet. Are you dropping out of the business world completely, or will you be doing some part-time or freelance work? Will you be sticking close to home, or do you plan to travel? Will you be occupying your time with low-cost activities, or do you intend to indulge in some expensive hobbies? Whatever your plans might be, make sure you're realistic about the amount of money you're going to need.

"[Retirees] should expect to spend 80% to 100% of their current income in retirement," says Mari B. Adam, CFP, MBA, CRPC. "Thanks to improvements in healthcare, people are living longer, more productive lives. That means your



years in retirement could equal your working years."

So, how do you calculate how big your nest egg needs to be for you to live the retirement lifestyle you want? According to Anne Chernish, CFP, an easy rule of thumb is to estimate how much money you'll need in the first year of retirement and then figure out what level of assets it would take to generate that income each year.

For example, if you need \$45,000 per year and nothing is coming from other sources (such as pensions, Social Security, or part-time employment income), it would take \$1 million invested in a balanced portfolio producing an after-tax rate of 4.5% to "earn" the annual income you need to live. See Figure 1 for an idea of how big a portfolio it would take to generate a specified annual income at a particular rate

of return.

### Take inventory

Hopefully, the news that you need a million bucks to fund a \$45,000-a-year lifestyle doesn't come as a huge shock. Even if it does, don't abandon your retirement dreams yet. You might be just as surprised to find out that your nest egg is in better shape than you thought.

Take an inventory of all your retirement resources. Pore over your IRAs and 401(k) accounts. Check your Social Security benefits. Tally up all your other assets. And start to develop a savings plan today. Saving just \$10 a day can have a dramatic impact down the road, especially if the money is invested wisely. At a 10% rate of return, that \$10 per day would add up to over \$1 million after 35 years. Remember, it's not a process of making huge sacrifices—it's about being consistent and disciplined.

Think of it not as saving or budgeting, but as buying your future. How and when you retire is within your control. It is up to you to make your retirement dreams reality — *E.B.N.*

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To calculate how much you need to contribute to your 401(k) plan to achieve your retirement goals, go to [www.BenefitNews.com](http://www.BenefitNews.com) and click on Retirement.

Figure 1— The Size of a Portfolio Required to Produce a Specified Annual Income at a Particular Rate of Return

		After-Tax Rate of Return			
		4.5%	5.5%	6.5%	7.5%
Annual Income Needed	\$45,000	\$1,000,000	\$818,000	\$692,000	\$600,000
	\$60,000	\$1,333,000	\$1,091,000	\$923,000	\$800,000
	\$75,000	\$1,667,000	\$1,364,000	\$1,154,000	\$1,000,000
Rounded to the nearest 1,000					