SAVING FOR RETIREMENT

It's never too early to begin planning for retirement. In fact, when you start now, you can save at a comfortable pace and not worry about having to play catch up later in life. To determine how much you should be saving, there are a few questions you should answer:

- When would you like to retire?
- How long do you expect to live after retirement?
- Will you have any additional income sources during retirement, such as a part-time job or employer pension plan?
- What do you think your monthly expenses will be during your retirement years?
- How will inflation affect your savings?

The younger you are, the more difficult it will be to predict exactly what your financial situation will look like when you reach retirement age. Don't worry too much about trying to be 100% accurate. Simply use this worksheet as a good starting point to figure out what you'll need at retirement. You can adjust your calculations as you move forward. And, if some of the formulas don't make sense, that's ok too. They've been developed by mathematicians and put to the test. They work!

You may find that the most difficult number to predict is the amount of your expenses during retirement. That's because this amount is actually unpredictable. There are components you can plan for, such as monthly rent or property taxes, groceries and other items; but there are also things we cannot foresee, such as the cost of medications we require when we're older. Don't worry, though; the closer you get to retirement, the better idea you'll have of your expenses, so make your best guess now, and be sure to reevaluate this number as you get closer to your retirement.

It's also important to note that, while retirement savings play into your long-term finances, you should also be planning for your immediate needs. If you haven't saved enough emergency funds to cover your expenses in case you're unable to work for a period of time, you should consider addressing this need as well. If you're using a retirement savings account as your emergency stash, there's a good possibility you'll have to pay fees to withdraw funds before you're retired. That's extra money that you wouldn't have to pay with a regular savings account. We recommend keeping enough money in savings to cover three months of bills in the event of an emergency.

How much should you be saving per month for retirement?

	Monthly Retirement Expenses	
1	Amount needed to cover monthly expenses	$
2	Multiply #1 by 0.2 to determine your monthly income taxes	$
3	Add #1 & #2 to get the total you'll need each month	$
	Monthly Retirement Income	
4	Pension plan monthly distribution[1]	$
5	Social Security income (Table 1)	$
6	Employment income during retirement such as a part-time job	$
7	Total monthly earnings and retirement benefits (add #4, #5 & #6)	$
8	Now, subtract #7 from #3 to see how much additional monthly income you'll need	$
9	Divide the income needed in #8 by 24. (It's a strange formula, but it works!)	$
10	How many years do you have until you retire?	
11	Multiply #9 by #10 to see how much additional income you will need in the future due to inflation	$
12	Add #8 and #11 to get the total monthly income you will need	$
13	Multiply #12 by 240 to find out how much you will need at retirement in order to reach your goals[2]	$
	Current Savings	
14	401(k) and other employer-sponsored retirement plans	$
15	Individual Retirement Accounts (IRAs)	$
16	Other savings that you intend to use for retirement	$
17	Total Saved so far (add #14, #15 and #16)	$
18	Determine your investment growth factor in Table 2	
19	Multiply #17 & #18 to determine how much the amount you've saved will be worth in the future	$
	How Much to Save	
20	Savings still needed (Subtract #19 from #13)	$
21	Determine your monthly savings factor in Table 3	
22	Additional Monthly Savings Needed (#20 x #21)	$

[1] A pension plan is an employment benefit in which a company promises a monthly contribution to an employee during retirement. The amount an individual receives each month during retirement is based upon earnings history, tenure with the company and age. Because the employer sets aside this money while the employee is still working, it is less risky than investments that could diminish due to unfavorable economic conditions.

[2] This number is based on an assumption that your savings and investments will earn four percent more than the rate of inflation and will be used up in 40 years.

Table 1 – Social Security Benefits

Use this table to determine the monthly social security benefits you will receive in today's dollars[3]

Your Current Annual Income	Your monthly benefits at age 65-67
$10,000	$ 615
$20,000	$ 887
$30,000	$ 1,151
$40,000	$ 1,423
$50,000	$ 1,598
$60,000	$ 1,722
$70,000	$ 1,849
$80,000	$ 1,969

If you have a spouse, they will likely receive half of the amount indicated once they turn 65. If they are also due social security benefits based on their own salary, they will receive whichever amount is greater.

[3] Keep in mind that this amount isn't necessarily worth the same amount that it will be when you retire. Depending on the U.S. inflation rate between now and your retirement year, a dollar may not be able to buy as much as it does today, just as a dollar in the 1920s would've bought more than it can today.

Table 2 – Investment Growth Factor

Choose your desired investment growth factor from the table below. The investment growth factor shows the amount one dollar you invest today will be worth when you retire. Of course, it's important to keep in mind that the rates of return on different investments can vary drastically and are always changing. Check up on the rates of return you're receiving frequently and adjust the amount you save for retirement accordingly.

Years until Retirement	Rate of Return			
	4%	6%	8%	10%
5	1.22	1.34	1.47	1.61
10	1.48	1.79	2.16	2.59
15	1.80	2.40	3.17	4.18
20	2.19	3.21	4.66	6.73
25	2.67	4.29	6.85	10.83
30	3.24	5.74	10.06	17.45
35	3.95	7.69	14.79	28.10
40	4.80	10.29	21.72	45.26
45	5.84	13.76	31.92	72.89
50	7.11	18.42	46.90	117.39

Table 3 – Monthly Savings Factor

Years until Retirement	Rate of Return 2%	4%	6%	8%	10%
5	0.0158	0.0150	0.0143	0.0136	0.0129
10	0.0075	0.0068	0.0061	0.0055	0.0049
15	0.0048	0.0041	0.0034	0.0029	0.0024
20	0.0034	0.0027	0.0022	0.0017	0.0013
25	0.0026	0.0019	0.0014	0.0011	0.0008
30	0.0020	0.0014	0.0010	0.0007	0.0004
35	0.0016	0.0011	0.0007	0.0004	0.0003
40	0.0014	0.0008	0.0005	0.0003	0.0002
45	0.0011	0.0007	0.0004	0.0002	0.0001
50	0.0010	0.0005	0.0003	0.0001	0.0001

If the worksheet showed you are saving enough for each month for retirement, congratulations! If it didn't, try and step up your retirement savings if you can. If it seems impossible to save enough each month, try modifying your assumptions. For example, you could plan to work longer so you'll have longer to save. Or, you could plan to work part-time during retirement which would also reduce the amount of retirement income you'll need.

You may also look into retirement savings opportunities that you aren't currently participating in, such as employer benefits. Many employers will match deposits into a retirement account up to a certain amount each month. If you're not taking advantage of that, you're missing out on free money! If your employer doesn't offer a retirement savings program, you can open up an individual retirement account (IRA) at your local bank or credit union and begin earning interest on your savings.

Be sure and reevaluate your savings needs whenever necessary to account for changes in income, withdrawals from retirement accounts or changes in rates of return on investments. It may seem like work now, but it will pay off during retirement!

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