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"A Fiduciary Plan Administrator"

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Setting a Retirement Savings Goal

Many Americans realize the importance of saving for retirement, but knowing exactly how much they need to save is another issue altogether. With all the information available about retirement, it is sometimes difficult to decipher what is appropriate for your specific situation.

How much do you need to save?

One commonly cited guideline is that retirees will need approximately 80% of their pre-retirement salaries to maintain their lifestyles in retirement. However, depending on your own situation and the type of retirement you hope to have, that number may be higher or lower.

Here are some factors to consider when determining a retirement savings goal.

Retirement age: The first factor to consider is the age at which you expect to retire. In reality, many people anticipate that they will retire later than they actually do; unexpected issues, such as health problems or workplace changes (downsizing, etc.), tend to stand in their way. Of course, the earlier you retire, the more money you will need to last throughout retirement. It's important to prepare for unanticipated occurrences that could force you into an early retirement.

Life expectancy: Although you can't know what the duration of your life will be, a few factors may give you a hint. You should take into account your family history — how long your relatives have lived and diseases that are common in your family — as well as your own past and present health issues. Also consider that life spans are increasing with recent medical developments. More people will be living to age 100, or perhaps even longer. When calculating how much you need to save, you should factor in the number of years you expect to spend in retirement.

Future health-care needs: Another factor to consider is the cost of health care.

Health-care costs have been rising much faster than general inflation, and fewer employers are offering health benefits to retirees. Long-term care is another consideration. These costs could severely dip into your savings and even result in your filing for bankruptcy if the need for care is prolonged.

Lifestyle: Another important consideration is your desired retirement lifestyle. Do you want to travel? Are you planning to be involved in philanthropic endeavors? Will you have an expensive country club membership? Are there any hobbies you would like to pursue? The answers to these questions can help you decide what additional costs your ideal retirement will require.

Many baby boomers expect that they will work part-time in retirement. However, if this is your intention and you find that working longer becomes impossible, you will still need the appropriate funds to support your retirement lifestyle.

Inflation: If you think you have accounted for every possibility when constructing a savings goal but forget this vital component, your savings could be far from sufficient. Inflation has the potential to lower the value of your savings from year to year, significantly reducing your purchasing power over time. It is important for your savings to keep pace with or exceed inflation.

Social Security: Many retirees believe that they can rely on their future Social Security benefits. However, this may not be true for you. The Social Security system is under increasing strain as more baby boomers are retiring and fewer workers are available to pay their benefits. And the reality is that Social Security replaces about 40% of a medium wage earner's income, and a little over a quarter of a high wage earner's.[1] That leaves approximately 60% to 75% to be covered in other ways.

And the total is…

After considering all these factors, you should have a much better idea of how much you need to save for retirement.

For example, let's assume you will retire next year at Social Security's full retirement age of 66 and spend a total of 20 years in retirement. Your annual income is currently $80,000, and you think that 75% of your pre-retirement income ($60,000) will be enough to cover the costs of your ideal retirement, including some travel you intend to do and potential health-care expenses. After factoring in the approximately $25,000 annual Social Security benefit you expect to receive, a $10,000 annual pension from your employer, a 3% potential inflation rate, and a 6% expected rate of return in retirement, you end up with a total retirement savings amount of about $364,000. (For your own situation, you can use a retirement savings calculator from your retirement plan provider or from a financial site on the Internet.) This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. Investment returns cannot be guaranteed.[2]

The estimated total for this hypothetical example may seem daunting. But after determining your retirement savings goal and factoring in how much you have saved already, you may be able to determine how much you need to save each year to reach your destination. The important thing is to come up with a goal and then develop a strategy to pursue it. You don't want to spend your retirement years wishing you had planned ahead when you had the time. The sooner you start saving and investing to reach your goal, the closer you will be to realizing your retirement dreams.

1) SSA Publication No. 05-10035, January 2019;

2)Social Security benefit was calculated using the SSA's Quick Calculator (www.ssa.gov), based on a current annual salary of $80,000. All calculations have been rounded for simplification purposes.

Estimate Your Retirement Savings Goal

How much might you need to retire? Use this worksheet to help target a total accumulation goal.

	Example	You
1. How much is your current income?	$50,000	
2. Multiply this amount by .80. This is an estimated annual income in retirement, in today's dollars, based on 80% of your current income. (Or enter a different amount, if you choose. Most experts suggest 70% to 100% of your current annual income.)	$40,000	
3. How much might you receive from Social Security each year, in today's dollars? Visit www.socialsecurity.gov to estimate your Social Security income.	$20,000	
4. How much might you receive each year from other sources, in today's dollars, such as pension income?	$0	
5. Add lines 3 and 4. This is your total estimated annual income, in today's dollars, from other sources.	$20,000	
6. Subtract line 5 from line 2. This is your estimated income gap, which you will need to make up from your retirement savings.	$20,000	
7. How many years until you retire?	20 years	
8. Find the corresponding factor from Table A below and enter it here.	1.81	
9. Multiply line 6 by line 8. This is the amount that your savings will need to generate in year one of your retirement.	$36,200	
10. How long do you expect your retirement to last?	25 years	
11. Find the corresponding number from Table B below and enter it here.	22.32	
12. Multiply line 9 by line 11. This is the target amount you may need to accumulate by the time you retire.	$807,984	

This worksheet assumes that inflation rises at an average of 3% per year both before and during retirement. It also assumes that your investments grow at an average of 6% per year before retirement, and 4% per year during retirement. Such assumptions are hypothetical and cannot be guaranteed.

This worksheet is not meant as advice, but as a way to provide a general estimate for illustrative purposes. Your specific goal should take into consideration your total family income, your current and expected assets, and other unique circumstances. A financial professional can help you calculate a goal that is specific to your particular situation.

Table A

Years until retirement	5	10	15	20	25	30	35	40
Factor	1.16	1.34	1.56	1.81	2.09	2.43	2.81	3.26

Table B

Years in retirement	5	10	15	20	25	30	35	40
Factor	4.90	9.58	14.03	18.27	22.32	26.17	29.84	33.34

Closing a Retirement Income Gap

When you determine how much income you'll need in retirement, you may base your projection on the type of lifestyle you plan to have and when you want to retire. However, as you grow closer to retirement, you may discover that your income won't be enough to meet your needs. If you find yourself in this situation, you'll need to adopt a plan to bridge this projected income gap.

Delay retirement: 65 is just a number

One way of dealing with a projected income shortfall is to stay in the workforce longer than you had planned. This will allow you to continue supporting yourself with a salary rather than dipping into your retirement savings. Depending on your income, this could also increase your Social Security retirement benefit. You'll also be able to delay taking your Social Security benefit or distributions from retirement accounts.

At normal retirement age (which varies, depending on the year you were born), you will receive your full Social Security retirement benefit. You can elect to receive your Social Security retirement benefit as early as age 62, but if you begin receiving your benefit before your normal retirement age, your benefit will be reduced. Conversely, if you delay retirement, you can increase your Social Security benefit.

Remember, too, that income from a job may affect the amount of Social Security retirement benefit you receive if you are under normal retirement age. Your benefit will be reduced by $1 for every $2 you earn over a certain earnings limit ($18,240 in 2020, up from $17,640 in 2019). But once you reach normal retirement age, you can earn as much as you want without affecting your Social Security retirement benefit.

Another advantage of delaying retirement is that you can continue to build tax-deferred (or in the case of Roth accounts, tax-free) funds in your IRA or employer-sponsored retirement plan. Keep in mind, though, that you may be required to start taking minimum distributions from your qualified retirement plan or traditional IRA once you reach age 72, if you want to avoid harsh penalties.

And if you're covered by a pension plan at work, you could also consider retiring and then seeking employment elsewhere. This way you can receive a salary and your pension benefit at the same time. Some employers, to avoid losing talented employees this way, are beginning to offer "phased retirement" programs that allow you to receive all or part of your pension benefit while you're still working. Make sure you understand your pension plan options.

Spend less, save more

You may be able to deal with an income shortfall by adjusting your spending habits. If you're still years away from retirement, you may be able to get by with a few minor changes. However, if retirement is just around the corner, you may need to drastically change your spending and saving habits. Saving even a little money can really add up if you do it consistently and earn a reasonable rate of return. Make permanent changes to your spending habits and you'll find that your savings will last even longer.

Start by preparing a budget to see where your money is going. Here are some suggested ways to stretch your retirement dollars:

- Refinance your home mortgage if interest rates have dropped since you took the loan.
- Reduce your housing expenses by moving to a less expensive home or apartment.
- Sell one of your cars if you have two. When your remaining car needs to be replaced, consider buying a used one.
- Access the equity in your home. Use the proceeds from a second mortgage or home equity line of credit to pay off higher-interest-rate debts.
- Transfer credit card balances from higher-interest cards to a low- or no-interest card, and then cancel the old accounts.
- Ask about insurance discounts and review your insurance needs (e.g., your need for life insurance may have lessened).
- Reduce discretionary expenses such as lunches and dinners out.

Earmark the money you save for retirement and invest it immediately. If you can take advantage of an IRA, 401(k), or other tax-deferred retirement plan, you should do so. Funds invested in a tax-deferred account may grow more rapidly than funds invested in a non-tax-deferred account.

Reallocate your assets: consider investing more aggressively

Some people make the mistake of investing too conservatively to achieve their retirement goals. That's not surprising, because as you take on more risk, your potential for loss grows as well. But greater risk also generally entails potentially greater reward. And with life expectancies rising and people retiring earlier, retirement funds need to last a long time.

That's why if you are facing a projected income shortfall, you may want to consider shifting some of your assets to investments that have the potential to substantially outpace inflation. The amount of investment dollars you might consider keeping in growth-oriented investments depends on your time horizon (how long you have to save) and your tolerance for risk. In general, the longer you have until retirement, the more aggressive you can typically afford to be. Still, if you are at or near retirement, you may want to keep some of your funds in growth-oriented investments, even if you decide to keep the bulk of your funds in more conservative, fixed-income investments. Get advice from a financial professional if you need help deciding how your assets should be allocated.

And remember, no matter how you decide to allocate your money, rebalance your portfolio periodically. Your needs will change over time, and so should your investment strategy. Note: Rebalancing may carry tax consequences. Asset allocation and diversification cannot guarantee a profit or insure against a loss. There is no guarantee that any investment strategy will be successful; all investing involves risk, including the possible loss of principal.

Accept reality: lower your standard of living

If your projected income shortfall is severe enough or if you're already close to retirement, you may realize that no matter what measures you take, you will not be able to afford the retirement lifestyle you've dreamed of. In other words, you will have to lower your expectations and accept a lower standard of living.

Fortunately, this may be easier to do than when you were younger. Although some expenses, like health care, generally increase in retirement, other expenses, like housing costs and automobile expenses, tend to decrease. And it's likely that your days of paying college bills and growing-family expenses are over.

Once you are within a few years of retirement, you can prepare a realistic budget that will help you manage your money in retirement. Think long term: Retirees frequently get into budget trouble in the early years of retirement, when they are adjusting to their new lifestyles. Remember that when you are retired, every day is Saturday, so it's easy to start overspending.