

## Calculating Retirement Savings

To get a fix on how much money is enough for your retirement, start by identifying how much annual income (in today's dollars) you will need. (Figure on at least 70 percent of your current income, but preferably 100 percent. For the purposes of this exercise, we're pre-tending Social Security doesn't exist—which it may not!)

**Write that number here:** \_\_\_\_\_

You'll need to generate your required annual income by withdrawing an average of 5 percent annually from your nest egg. So the formula is:

**Annual Income ÷ .05 = Retirement Money Needed**

For example, if you need \$50,000 in annual retirement income, the formula would be  $\$50,000 \div .05 = \$1 \text{ million}$

**Write that number here:** \_\_\_\_\_

Once you identify how much money is enough for retirement, it's not hard to calculate how much you should be saving every month to reach that goal. Figure you'll be investing in growth stock funds that spin off a 10 percent annual return over the long run. Factor in a 4 percent inflation bite, and you're realizing actual growth of 6 percent. Assuming you plan to retire at age sixty-five, multiply your retirement fund by one of the following factors to determine your monthly savings. (You can get figures for any retirement age or amount on Web-based calculators, such as those at [www.choosetosave.org/calculators](http://www.choosetosave.org/calculators).)

Current age	Factor
25	.000500
30	.000699
35	.000991
40	.001436
45	.002154
50	.003422
55	.006072
60	.014262

For example, if you are currently age forty and need \$1 million to retire at age sixty-five, the formula would be  $\$1 \text{ million} \times .001436 = \$1,436$  per month in savings.

**Write your monthly savings here:** \_\_\_\_\_

*An excerpt from "Two for the Money: The Sensible Plan for Making it All Work" by Jonathan and David Murray with Max Alexander (Avalon Publishing Group; May 2006)*