
How Much to Save for Retirement

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Knowing how much to save for retirement is just as illuding as the location of the fountain of youth. Luckily, we have tools to help us plan for retirement and decide how much to save.

Information Needed

Usually deciding how much to save for retirement is based on the following:

- Your current age
- Your current income
- Your projected retirement age
- Your projected retirement income
- Are you married?
- How much money you have already saved for retirement
- How is the money invested
- How much you save annually towards your retirement

By answering these questions and filling them into a Retirement calculator, you can not only decide how much you need to save for retirement but also determine whether you are on track or if you need to step up the pace.

When did you start saving?

Think back to when you first started saving for retirement...or maybe you are trying to decide if you should start now (my answer would be yes start NOW!)? Did you start when you were young, or did you wait until you were in your late thirties or early forties? You may be asking yourself why this even makes any difference and the answer is simple - the sooner you start saving for retirement, the more money you will have saved for retirement. However, for a more complex answer, not only will you have more money in your retirement savings plan, but more importantly you will also have less that you will have to put into the plan in your later years to meet your goals. Unfortunately, the people that waited are now trying to catch-up and have to invest more.

The Bottom Line

Another way to decide how much to save for retirement, is to start by figuring out how much you want to live on annually during your retirement. Therefore, if you know the annual salary you need to pay yourself each year, you can estimate how long you may live, and have a rough figure of how much you might need to save as a total. For example, if a 30-year old woman wanted to live on \$40,000 during her retirement and she estimated that she would live to be 90 years old, and she estimated that she would retire at the age of 60, than the calculation would look like this:

$$\$40,000 \times 30 \text{ years } (90 - 60) = \$1,200,000$$

Now, let's say that she already had saved \$200,000. Therefore, we know that she needs to make up the \$1,000,000 in savings over the next 30 years. Of course some would argue that some of this income would come from social security, however, I like to use that as a back up plan and not a reliable source of income. If social security is not money you counted on when you retired, then it is extra income. Therefore, as the cost of living rises, you will have extra income to cover it.

When you ask how much should I have for retirement, you will not always get a crystal clear answer. However, as you can see, there are many tools that can help you along the way to decide how much to save to make sure that you have planned properly.