How Much Should You Save Each Year for Retirement?

Are you on the track to a comfortable retirement? The amount you should save each year depends on how far you are from retirement and how aggressively you invest. Find out how much you need to save each year to accumulate a nest egg of the size you want by retirement age. Use the table below to estimate your needed yearly savings amount. The steps below will show you how to use it.

Years Until Retirement	Savings Multiplier	Growth Multiplier
5	18.1%	1.28
10	8.0%	1.63
15	4.6%	2.08
20	3.0%	2.65
25	2.1 %	3.39
30	1.5%	4.32

The table assumes an after-tax return of 5% per year an extremely conservative assumption. If you are a more aggressive investor, you will need to save less.

Step One

Suppose you have determined that you need a lump sum of $375,000 to fund your desired annual retirement income. You are 40 years old, and want to retire at age 65. To find out how much you must save each year to have that $375,000 nest egg by the time you re 65, multiply $375,000 by the 25-year savings multiplier (2.1%). You will need to save $7,875 a year for 25 years (2.1% times $375,000 = $7,875). If you are expecting a lump sum at retirement, subtract that amount from the nest egg amount.

Step Two

Now suppose you already have $75,000 in a 401(k) plan or IRA. To find out what that amount will grow to in 25 years, multiply it by the growth multiplier for 25 years (3.39). Your $75,000 will have grown to $254,250 by the time you retire (3.39 x $75,000 = $254,250). Subtract the $254,250 from $375,000. This amount ($120,750) is the amount you must accumulate by the age of 65. Multiply the $120,750 by the 25 year savings multiplier (2.1%), and you see that you must save $2,535.75 per year to accumulate the $120,750.

Monitoring Your Retirement

It s important to look at your portfolio every year, since returns and inflation may not match your forecasts. Monitor your results to make sure you re on target. Fulbright Financial can help you with this analysis or with your asset allocation regarding your risk tolerance.

Catching Up

What if you have too little currently saved? To catch up, boost your annual savings rate. If you are 20 or more years from retirement, the boost won t be that high. Or increase your retirement nest egg by delaying retirement. Fulbright Financial Consulting, PA can help you determine all your options.
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