

How Much Do I Need to Save for Retirement?



If you watched The Super Bowl this year you may have seen the E-Trade retirement commercial. It shows men and women in their 80's begrudgingly punching a clock and working to a parody version of Harry Belafonte's Banana Boat Song (Day-O.) The actors sing "I'm 85 and I want to go home!" Then E-trade really hits the nail on the head by including a shocking, but true, statistic. Over 1/3 of Americans have no retirement savings. This commercial inspired me to write this article on retirement savings to hopefully shed some light on a topic that most people don't like to think about until it is too late.

How much will I need?

Most financial advisors stick with the 80% rule for a comfortable retirement. This simple rule simply dictates that in order to have a comfortable retirement most people require about 80% of their pre-retirement salary. Taking into account social security and any pensions, this amount can be adjusted down. In addition many retirees prefer to continue working part time for some time. Other factors such as desired lifestyle and health considerations may affect the validity of this rule of thumb as well.

So how much should you actually have saved you might ask? In order to arrive at the dollar amount you will need to live off of 80% of your pre-retirement salary in retirement you can simply divide 80% of your pre-retirement salary by 4%. This calculation assumes a 5% steady return on investments, which we all know can go up or down depending on the year. It should, however, give you a rough idea of around how much your target will be.

Example: If I make \$60,000 per year before retirement I will want \$48,000/yr to retire comfortably, so I will need to save \$1,200,000 ($48000 / .04$)

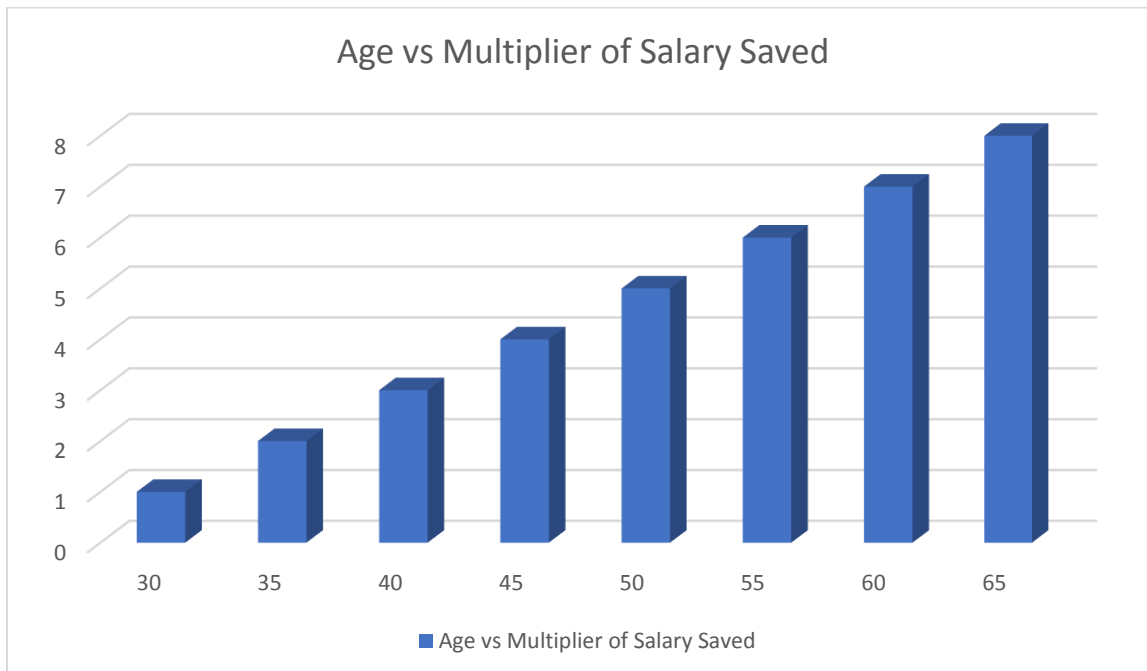
How much should I save?

How do you arrive at your desired nest egg amount? It is simple, but not easy. You save, and the earlier you start the better! Different advisors have different opinions on what percent of your gross annual salary you should be saving each year, but a good general rule of thumb is 15-25%. If you are able to take advantage of employer plans and matches as well, it is always a good idea to do so. Why would you not contribute the max allowed to a 401k that an employer was matching?

Although the 15-25% figure sounds daunting when you take into account debt repayment, employer plans, employer matches and cash savings it is definitely doable. Some years there will be bonuses (hopefully) and you will be able to save more. Some years life events may occur that require more capital, and you will be able to save less. If you consistently aim towards 25%, however, you will at least be off to a good start.

How much should I have saved now?

It is important to start saving as early as possible. Many young people think “Well, when I earn more I will save more!” This thought pattern in theory checks out, but most people generally tend to spend more as they earn more. This attitude actually may be setting you up for failure in the long run. Instead, start saving now. A good goal based on your age can be found in the chart I created below:



This general rule of thumb states that by 30, a good goal is to have at least your annual salary in savings. By 35 you should have 2x your annual salary saved, by age 55 you should have 6 times your annual salary saved... and so on.

How can a financial advisor help?

Maybe you're a little behind retirement savings, don't worry you're not alone. At Lovett Advisors we can work with you to help you create a retirement plan that works for you. We offer complimentary financial planning services every step of the way to assist you with reaching your financial goals. In addition we assist with 401k plan and employer allocations, to make sure that you aren't exposing your retirement accounts to excessive market risk. Give us a call today to see how we can help you plan for financial freedom in retirement.

Article by Suzanne Snyder of Lovett Advisors

*Suzanne M. Snyder
Financial Advisor
Lovett Advisors, LLC*

T. 302-250-4740

F. 302-380-3334

M. 484-886-9959

62 Rockford Road, Suite 12, Wilmington DE 19806

suzannesnyder@lovettheadvisors.com

www.lovettheadvisors.com

Lovett Advisors, LLC is a registered investment advisor. Securities offered through MerCap Securities, LLC, Member FINRA/SIPC and wholly owned subsidiary of MerCap Enterprises, Inc. Address: 40 Darby Road Paoli, PA 19301. [877-784-8021](tel:877-784-8021). Lovett Advisors, LLC and MerCap Securities, LLC are not affiliated. Information in this message is for the intended recipient[s] only. If you have received an email from Lovett Advisors, LLC in error, we ask that you contact the sender and destroy the email and its contents. Please visit our website www.lovettheadvisors.com for important disclosures.