Get a Ballpark Estimate of Your Retirement Needs

Choose to Save.™

www.choosetosave.org

The American Savings Education Council's Planning and Saving Tool

Forget, for a moment, the complexity of planning and saving for a comfortable retirement. The American Savings Education Council (ASEC) has a savings tool that can help—the **Ballpark Estimate** worksheet.

By simplifying some issues, such as projected Social Security benefits and earnings assumptions on savings, **Ballpark** offers users a way to obtain a rough first estimate of what Americans need for retirement. The worksheet assumes you'll need 70% of current income, that you'll live to age 87, and you'll realize a constant real rate of return of 3% after inflation.

For example, let's say Jane is a 35-year-old woman with two children, earning $30,000 per year. Seventy percent of Jane's current annual income ($30,000) is $21,000. Jane would then subtract the income she expects to receive from Social Security ($12,000 in her case) from $21,000, equaling $9,000. This is how much Jane needs to make up for each retirement year. Jane expects to retire at age 65, so she multiplies $9,000 x 16.4 equaling $147,600. Jane has already saved $2,000 in her 401(k) plan. She plans to retire in 30 years so she multiplies $2,000 x 2.4 equaling $4,800. She subtracts that from her total, making her projected total savings needed at retirement $142,800. Jane then multiplies $142,800 x .020 = $2,856. This is the amount Jane will need to save annually for her retirement.

According to the eighth annual Retirement Confidence Survey (RCS), co-sponsored by ASEC, the Employee Benefit Research Institute (EBRI), and Matthew Greenwald & Associates (MGA), only 45% of workers surveyed have tried to determine how much they'll need to save for a comfortable retirement.

Helping Americans learn about savings and retirement planning is ASEC's primary mission. A coalition of private- and public-sector organizations, ASEC's goal is to make saving and planning a vital concern of Americans. Through the *Choose to Save*™ national education program and other initiatives, ASEC works to raise public awareness about what is needed to successfully ensure long-term personal financial independence.

Copies of the **Ballpark Estimate** worksheet are available on ASEC's web site <www.asec.org> and at <www.choosetosave.org>.

To obtain printed copies of ASEC brochures, send a self-addressed, stamped (99¢ postage), business-sized envelope to: ASEC Savings Education Brochures, American Savings Education Council, Suite 600, 2121 K Street NW, Washington, DC 20037-1896

ASEC is part of the Employee Benefit Research Institute Education and Research Fund, a 501(c)(3) nonprofit, educational association.

BALLPARK E$TIMATE™

Planning for retirement is not a one-size-fits-all exercise. The purpose of Ballpark is simply to give you a basic idea of the savings you'll need when you retire.
So let's play ball!

If you are married, you and your spouse should each fill out your own Ballpark Estimate worksheet taking your marital status into account when entering your Social Security benefit in number 2 below.

1. How much annual income will you want in retirement? (Figure 70% of your current annual gross income just to maintain your current standard of living. Really.) — $ **21,000**

2. Subtract the income you expect to receive annually from:
   - Social Security—If you make under $25,000, enter $8,000; between $25,000 - $40,000, enter $12,000; over $40,000, enter $14,500 (For married couples - the lower earning spouse should enter either their own benefit based on their income or 50% of the higher earning spouse's benefit, whichever is higher) – $ **12,000**
   - Traditional Employer Pension – a plan that pays a set dollar amount for life, where the dollar amount depends on salary and years of service (in today's dollars) – $
   - Part-time income – $
   - Other – $

   This is how much you need to make up for each retirement year: –$ **9,000**

Now you want a ballpark estimate of how much money you'll need in the bank the day you retire. So the accountants went to work and devised this simple formula. For the record, they figure you'll realize a constant real rate of return of 3% after inflation, you'll live to age 87, and you'll begin to receive income from Social Security at age 65.

3. To determine the amount you'll need to save, multiply the amount you need to make up by the factor below.

Age you expect to retire:	Your factor is:
55	21.0
60	18.9
→ 65	16.4 ←
70	13.6

$ **147,600**

4. If you expect to retire before age 65, multiply your Social Security benefit from line 2 by the factor below.

Age you expect to retire:	Your factor is:
55	8.8
60	4.7

+$

5. Multiply your savings to date by the factor below (include money accumulated in a 401(k), IRA, or similar retirement plan).

If you want to retire in:	Your factor is:
10 years	1.3
15 years	1.6
20 years	1.8
25 years	2.1
→ 30 years	2.4 ←
35 years	2.8
40 years	3.3

–$ **4,800**

Total additional savings needed at retirement: =$ **142,800**

Don't panic. Those same accountants devised another formula to show you how much to save each year in order to reach your goal amount. They factor in compounding. That's where your money not only makes interest, your interest starts making interest as well, creating a snowball effect.

6. To determine the ANNUAL amount you'll need to save, multiply the TOTAL amount by the factor below.

If you want to retire in:	Your factor is:
10 years	.085
15 years	.052
20 years	.036
25 years	.027
→ 30 years	.020 ←
35 years	.016
40 years	.013

=$ **2,856**

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See? It's not impossible or even particularly painful. It just takes planning. And the sooner you start, the better off you'll be.

This worksheet simplifies several retirement planning issues such as projected Social Security benefits and earnings assumptions on savings. It also reflects today's dollars; therefore you will need to re-calculate your retirement needs annually and as your salary and circumstances change. You may want to consider doing further analysis, either by yourself using a more detailed worksheet or computer software or with the assistance of a financial professional.
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   • Part-time income   -$ _____

   • Other   -$ _____

   =$ _____

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