HOW MUCH DO I NEED TO RETIRE?

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One of the first things people do once they get serious about planning and saving for retirement is to look at a retirement calculator to find out how much they need to save. There's nothing wrong with that. However, every person's situation is completely different. What might be the right amount for one person will not be right for everyone. For example, someone who is happy staying home and fishing at their local lake during retirement will need less than someone who plans to travel frequently and fish in the Florida Keys. These are the types of things a retirement calculator might not take into consideration before giving you the lump sum amount you'll need for retirement.

You may have heard some financial advisors try to answer this question very broadly. For instance, one popular notion is that you'll need one million dollars in savings to retire more comfortably. Another is that you'll need to be able to generate 80% of your current income after you retire. So, if you brought home $100,000 per year during your working years, you would need to get $80,000 per year from your investments during retirement. But again, taking a broad approach to this question is pointless in a way because each person's situation is different based on their retirement timeline, goals, health, and a variety of other issues, such as: Are you debt-free? Do you have a history of longevity in your family? Do you have other sources of income like a pension that can help to supplement your savings?

Where to Begin

One good way to begin calculating the answer for yourself is to perform a budget analysis. This involves identifying all the expenses you will have once you retire, as well as those you expect to go away, such as your FICA tax, commuting costs, and perhaps your mortgage payments. Next, you'll need to determine how much income you will have coming in the door once you stop working. For example, an important source of retirement income will be your Social Security benefits. You can use the benefits calculator on SSA.gov to estimate how much your benefits will be based on claiming them at the optimal time. The right age will vary from person to person, and it will, again, be determined by considering many factors such as your age, earnings, and retirement goals.

The decision of when to start taking your Social Security benefits is one of the most important retirement decisions you'll make. With a proper plan and by carefully coordinating your Social Security benefits with your other retirement sources, Social Security can be the cornerstone on which you help build a successful retirement.

Strategy is Key

While it's important to save as much as you possibly can for retirement, many people focus too much on a specific lump sum and not enough on having the right financial strategy in place for retirement. That process starts with something we've mentioned a couple of times already: your retirement goals.

Take a moment to imagine it's your first day in retirement. You no longer need to worry about work and can begin enjoying the retirement you've always envisioned. What is it that you will want to do with your time? Will you want to go out and make a major purchase like a yacht or a second home? Or, perhaps instead of splurging on luxuries, you might be more fixated on maintaining your current lifestyle and doing things that bring you happiness and peace of mind. Maybe you will want to travel, dine out more often, visit friends and family, or pursue your favorite hobbies and pastimes.

The fact is, once most people take the time to envision and identify their retirement goals, they realize their goals are income-based. In other words, they are goals best achieved through a retirement strategy that gives them steady streams of income.

You May Need Less Than You Think

According to BusinessInsider.com, the average 401(k) balance for those aged 65 and up is $216,720.[1] If you are thinking that this amount might not be nearly enough to enjoy a comfortable retirement, even with your Social Security income factored in, you could be right. This is especially true if that money is invested in growth stocks and mutual funds, and we experience another major prolonged market downturn like those that began in 2000 and again in 2007.

On the other hand, if, in the years before retirement, you start investing that money in income-generating strategies designed to help protect your savings, it could end up being enough. That's because the interest and dividends generated by your investments can be reinvested to grow your portfolio organically and with less risk, and then give you a more reliable and sufficient income source once you do retire.

Summary

The bottom line is that, rather than fixating on some magic number that you need to have saved up before you retire, it's just as important to determine the best ways to help preserve your hard-earned savings so you can use it to generate income. This is exactly why, in recent years, more and more older Americans across the country have shifted their financial focus to investing for income — and it's also why many are turning to financial advisors who specialize in helping clients make this important shift.

Source:

1. https://www.marketwatch.com/story/here-are-the-average-retirement-savings-by-age-is-it-enough-2020-11-16

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