

## Calculating Your Retirement Nest Egg Number

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Calculating the amount of nest egg needed for retirement is critical to enjoying a fulfilled retirement. In a 2009 Business Week survey, the author noted that less than 5% of the respondents, who are current retirees, had gone through the exercise of determining the amount of nest egg needed to fully fund their retirement. A 2007 SSI survey indicates that 69% of current SSI recipients started receiving their social security benefits when they attained age 62 and only 7% waited to start their monthly SSI benefit at age 70. People who start receiving their SSI benefits at age 70 instead of 62, receive a SSI pension that is 72% greater than the benefit received at age 62. The author speculated that if retirees had calculated their nest egg needs, many would have continued working longer (if their health and circumstances allowed).

There are several methods to calculating the amount of nest egg you will need in retirement. There are hundreds of calculators found on internet sites. Most tend to focus on telling you how much more you need to save for retirement. The purpose here is to focus on calculating the amount of the nest egg and the choices you can make that affect that amount. Calculating the amount of your nest will take much of the guesswork out of retirement planning.

Take a few minutes to calculate your retirement nest egg by using the following steps in this simplified calculation:

1. Start by using your current annual income. Multiply the number of years until retirement by 0.03. Then add this factor to 1 and multiply it by your current annual income. This step attempts to adjust your salary with inflation even if you aren't receiving annual salary increases.
2. Subtract the annual amount you are currently saving for retirement.
3. Subtract your estimated annual social security benefits. SSI sends you a benefit estimate annually, about two months before your birthday.
4. Subtract your estimated annual pension benefits, if any (your human resources benefit administrator will give you that information).
5. Multiply that number by 25.



Take the example of Jim Cosby who is 57 years old and currently earns \$36,000 per year. His projected income (includes 3% cost of living adjustments) at age 65, is \$44,640 = [36,000 X 1.24 (1 + .03 x 8)]. He is currently saving \$4,000 per year for retirement. He knows that his SSI income and pension at age 65 is projected to be \$18,660 and \$11,460 respectively.

His calculation is  $\$44,600 - (4,000 + 18,660 + 11,460) = 10,480 \times 25 = \$262,000$ . His Nest Egg Number is \$262,000.

Why do we use a multiple of 25? A 65-year old entering retirement today has a 20-year life expectancy. When you use 4% of the nest egg balance annually, you could be reasonably assured you won't outlive your money. And, 4% of \$262,000 is \$10,480, the amount of the annual income shortfall.

Adjustments to your retirement nest egg number are needed if you have significant longevity in your family. If your parents or grandparents lived to be 90, then you may want to use a multiple of 30 instead of 25.

If you are planning to retire early, prior to age 65, then you will need to increase the multiplier. If Jim plans to retire at age 62 instead of 65, then his nest egg will need to increase substantially. His estimated pension falls from \$11,460 to \$8,800 and his social security income will decrease from \$18,660 to \$14,256. His calculation is now  $\$41,400 (\$36,000 \times 1.15 \text{ or } 5 \text{ years times } .03) - (4,000 + 14,256 + 8,800) \times 28 = \$401,632$ .

If Jim is healthy, enjoys his work, and plans to retire at age 70, then his nest egg need decreases. In Jim's situation, his SSI will increase to \$24,526. His pension will remain the same and his income is estimated to grow to \$50,040 over the next 13 years. His calculation is now  $[\$36,000 \times (1.39)] - (\$4,000 + \$24,526 + 11,460) \times 20 = \$201,080$ .

If Jim changes his habits and increases his annual savings for retirement to \$6,000 his nest egg need declines some more.  $[\$36,000 \times (1.39)] - \$6,000 + \$24,526 + \$11,460 \times 20 = \$161,080$ .

The single most important factor to financial security in retirement is the amount of savings you put aside for retirement each year, not the amount of return you earn. The second most important factor to a successful retirement may be in delaying the date you start receiving social security benefits. (Example indicates a \$10,270 annual increase in SSI benefits when you delay the start of SSI benefits to age 70.)

Several web sites are available to help you with your retirement planning. Get your Social Security benefit estimate by going to <http://www.socialsecurity.gov/estimator>.

Don't delay. Calculate your "Retirement Nest Egg Number" today.

