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Retirement Planning Basics

When you begin thinking about retirement planning it becomes very important to calculate realistic estimates as to how much money you can remove from your retirement funds each year to ensure that you won't run out of money before you die.

According to a study done by Fidelity Investments if you had a $500,000 portfolio in 1972 and withdrew 4% each year you would now have $1,000,000. If instead, you withdrew 5% a year you would have run out of money in 1995! As you can see, what appears to be a small difference (only 1%) in withdrawals from your savings can have a dramatic impact on your retirement life style.

Most financial planners will tell you that you will need between 75% and 90% of your pre-retirement income to have a comfortable retirement. Let's use the lower estimate of 75% to do some calculations.

Assume your retirement income is invested in a conservative mix of stocks and bonds that many financial planners would recommend. If you think 75% of you pre-retirement income will be $50,000 a year when you retire and would like to withdraw 4% each year you would need $1,250,000 in savings!

How close are you to attaining your goals?

Use this formula to do some of your own financial planning.

X = percent you will want to withdraw each year
Y = annual income you think you will need after retirement
Z = amount in savings you will need at retirement

$$Y/X=Z$$

Example: $40,000/.04 = $1,000,000

Remember, the sooner you start to plan and save for retirement the more likely you will be to reach your goals. Historically, the stock market has outperformed other types of investments over the long haul. Even though the economy may look bad at the moment, over time it will recover.