Motley Fool's *Rule Your Retirement* Newsletter

# Saving Enough to Retire?

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August 9, 2019

Quick question: How much do you need to accumulate before you can retire?

Have a dollar amount in mind?

Great! Let's see how your number compares to the results of a survey conducted by financial-services firm Charles Schwab, which asked 1,000 401(k) participants to provide a figure. The average response was $1.7 million, but the responses varied rather widely.

| Amount Needed for Retirement | Less Than $100,000 | $100,000-$250,000 | $250,000-$500,000 | $500,000-$750,000 | $750,000-$1 million |
|---|---|---|---|---|---|
| % of Respondents | 4% | 7% | 10% | 11% | 14% |

*Source: Charles Schwab 2019 401(k) Participant Survey. 10% responded "Don't know."*

The bigger question for you, dear Fool, is whether the number you conjured in your noggin is an accurate reflection of how much you actually need to safely declare your financial independence. It's not an easy question to answer, given that the magic number depends on so many variables.

Fortunately, some folks have gamely tried to provide some general rules of thumb in order to help workers come up with a number that's at least in the ballpark. One such group of folks is Fidelity Investments, which administers 17 million 401(k) accounts across 23,000 plans that collectively own $1.84 trillion in assets.

Fidelity has published research that provides age-based guidelines, as a multiple of household income. According to these guidelines, someone who is 30 should have saved an amount that is one time their income. So if her salary is $50,0000 a year, she should have $50,000 saved already.

Those income multiples increase with age, with the ultimate goal of amassing 10 times income for those who retire at age 67.

| Age | 30 | 35 | 40 | 45 | 50 | 55 | 60 | 67 |
|---|---|---|---|---|---|---|---|---|
| Multiple of Income | 1x | 2x | 3x | 4x | 6x | 7x | 8x | 10x |

*Source: Fidelity Investments*

In an upcoming episode of the Motley Fool Answers podcast (available on Aug. 20), I will interview Jeanne Thompson, Head of Workplace Solutions Thought Leadership at Fidelity. In preparation for the interview, I read the research that underlies Fidelity's savings guidelines. As you can imagine, these rules of thumb require plenty of assumptions -- which may not exactly conform to your specific situation.

So let's take a look at some of those assumptions -- in particular, the ones you have the most control over – and see how changing them might result in a more accurate guideline for your situation.

### 1. How much you save and when you start

Fidelity's analysis assumes a worker begins saving 15% of income at age 25. That 15% can be a combination of employee savings as well as an employer 401(k) match.

This is a bit worrisome, since research from both Fidelity and Vanguard indicates that workers are contributing a total 10.5% to 13.5% to their 401(k)s, below that 15% target. Plus, the later a worker starts, the more he needs to save. According to Fidelity, someone who starts at age 30 should save 18% of income for retirement, and those who delay until 35 need to save 23%.

What if you started at 25 but want to retire sooner than age 67? Fidelity's research suggests a savings rate of 25% if you want to retire at 62, and 19% if your goal is to retire at 65. Willing to wait until age 70? Then you only need to save 11% a year.

### 2. How much you'll spend in retirement

Fidelity's research indicates that retirees need 55% to 80% of their pre-retirement income. One particularly interesting insight: The more income you earned while working, the more your income needs will drop after you retire.

Someone earning $50,000 a year while working needs 80% of that amount in retirement to maintain their lifestyle. That percentage, known as the income replacement rate, drops to 72% for those who earned $100,000 while working, 61% for those who earned $200,000, and 55% for those who earned $300,000.

Why the drop-off? Two big reasons: 1) Higher-income workers devote a larger percentage of their salary to savings, an expense that goes away in retirement, and 2) the more money you made while working, the more your tax bill will likely decline after you retire.

But despite those differences in income replacement rates, Fidelity finds that most retirees will derive 45% of their pre-retirement income from their savings. What varies significantly is how much pre-retirement income is replaced by Social Security, which is designed to replace a bigger portion of income for lower-earning workers.

| Pre-Retirement Income | Total Income Replacement Rate Required | % Replaced by Savings | % Replaced by Social Security |
|---|---|---|---|
| $50,000 | 80% | 45% | 35% |
| $100,000 | 72% | 45% | 27% |
| $200,000 | 61% | 45% | 16% |
| $300,000 | 55% | 44% | 11% |

*Source: Fidelity Investments*

All this assumes that your goal is to maintain your lifestyle in retirement. What if you retire at age 67 and want to enjoy your newfound freedom by traveling, RV-ing, or otherwise increasing the cost of your lifestyle? Then Fidelity suggests you'll need 12 times your pre-retirement income. On the other hand, if you're instead willing to reduce your spending and live a frugal retirement, you'll need just eight times your working wages.

Retiring at a different age than 67? [This tool](#) from Fidelity will mix and match a retirement age with a desired lifestyle and give you a savings target.

### 3. When you retire

While Fidelity's primary analysis assumes that workers will retire at age 67, the reality is that the average retirement age in America is a few years earlier. As you likely guessed, retiring sooner requires that you have more saved, for three key reasons:

- You'll spend more years retired, which increases the total cost of retirement.
- The longer your retirement, the less you can withdraw from your portfolio each year and still be reasonably confident that your portfolio will last for the rest of your life.
- The sooner you claim the Social Security benefits, the lower your monthly check. That means you'll have to rely more on your portfolio to cover the costs; put another way, the income replacement rate from savings increases.

| Retirement Age | Income Replacement Rate From Savings | Recommended Withdrawal Rate | Multiple of Income Needed to Retire |
|---|---|---|---|
| 62 | 55% | 3.9% | 14x |
| 65 | 50% | 4.2% | 12x |
| 67 | 45% | 4.5% | 10x |
| 70 | 40% | 4.9% | 8x |

*Source: Fidelity Investments*

## The Foolish Bottom Line

While I find Fidelity's guidelines very helpful -- and the underlying research insightful -- they're still just guidelines, and should not be relied upon as your only source of retirement savings analysis. Many factors would change the numbers for you, such as getting a pension, being married to someone who will retire at a different time than you, or having health issues that will increase your expenses or affect your longevity.

As we often suggest, use a retirement calculator that can factor in your specific circumstances, and consider hiring the services of an experienced, qualified, fee-only financial planner at least once in your 50s and again as you get within a year or few of retirement.