

Retirement 101, Part 7: Determining How Much You Need to Retire

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In this installment of our Retirement 101 blog series, we'll discuss ways to determine how much income you may need in retirement. It can be a daunting undertaking, but it's important to have an idea of how much you will need. That way you can more easily plan how much you may need to save and how best to [allocate your assets in order to meet your income goals](#). There is a rule of thumb that says you will likely need 70% of your current income in retirement. So, if you make \$100,000 per year now, you will need \$70,000 per year then. But this rule of thumb may not take everything into consideration. Perhaps you want to live more lavishly in retirement, or perhaps you still have kids in college when you're "retirement age." Whether you use that rule of thumb or a retirement calculator to help you determine what you'll need, you are going to have to consider a number of factors (and have the information at the ready) to get to your unique number.

Social Security People often forget to factor in how much Social Security they may receive when considering how much income they'll need in retirement. While it probably won't be enough to meet your needs, you will likely receive some sort of benefit. Each year, you should be receiving a statement from the Social Security administration that gives you an idea of what your monthly benefits will be in retirement. Use this as a starting point for income you will receive and look at your investments to supplement it.

Longevity According to the Centers for Disease Control, the average woman born in 1970 who reaches the age of 65 will likely live to be 82, while the average man will likely live to be 78. This is wonderful news, but it does impact how long you may be in retirement and how much money you will need. And it is important to remember that these are averages, which means that many people will live longer than these estimates – so your retirement could last 20-25 years or more.

Lifestyle The lifestyle you want to lead in retirement also impacts how much income you will need. Travel, entertainment and golf don't come cheap. But perhaps you have modest dreams and will consider downsizing during retirement. Think about whether you will have multiple cars or a big home, how much you might travel, etc. Having a plan for what you think you will do in retirement will help you determine the true income level you may need.

Health Care While few of us like to think about it, the truth is that you will need more health care as you age. And health care costs are rising much faster than inflation. Medicare and Medicaid do not cover everything, and even if you are healthy, prescriptions alone can be quite costly. Currently, the average 65-year-old retiring couple is estimated to spend \$240,000 on health care throughout their retirement.¹ Of course, that means many couples spend less and many spend more.

Inflation Don't forget to factor in inflation. In general, the price of goods increases about 3%-4% each year, so all things being equal, that \$1.00 cup of coffee will cost \$1.04 next year. Of course, all things are rarely equal, and the price of many things (such as health care and college) increases much faster than the cost of inflation. The bottom line is that you need your investments to return at least 4% just to keep up with inflation. That can be a tall order.

Don't get discouraged The information can seem overwhelming, but it doesn't need to be. Every little bit you save will help you prepare for retirement, so do not get discouraged. One thought is to save as

much as you can now and to select investments, such as exchange-traded funds (ETFs), that offer lower fees. Even 1% lower fees can make a significant difference in your retirement balance over time. For more information on 401(k) plans, ETFs or other investment topics, please visit www.wisdomtree.com. *Read our 401(k) series [here](#).* ¹According to Fidelity.

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