



HOW MUCH DO YOU NEED TO RETIRE COMFORTABLY?

By: Brandon Canonica - January 31, 2025

How much do you need to save to retire confidently and comfortably? Knowing this number can be challenging because the answer varies for each person. However, having a plan that considers your income streams, time horizon, and desired lifestyle can help you approach your golden years with less uncertainty.

In this article, we'll guide you through the considerations for setting your retirement savings target. This includes examining the factors that impact how much you'll need, including inflation, lifestyle needs, and emergency expenses. You'll also discover sustainable withdrawal strategies and how a financial advisor can support you before and after retirement.

Setting Your Retirement Savings Target

"There is no one-size-fits-all answer for how much you need to save for retirement," explains Melissa Murphy Pavone, CFP®, CDFP®, financial advisor and founder of Mindful Financial Partners. Rather, the amount that's right for you depends on several different factors, including when you want to retire and the type of lifestyle you want. After considering these, you or your advisor can more accurately predict how much you'll need.

One common rule of thumb is that you'll need at least 80% of your pre-retirement income to maintain your lifestyle in retirement. However, this may be "a moving target," according to Nick Bour, founder and CEO of Inspire Wealth. Your actual needs may be higher or lower, depending on your personal circumstances and goals.

Below are the key factors to consider when setting your retirement savings goal:

1. When Do You Want to Retire?

Your planned retirement age is critical in determining how much you need to save. The sooner you retire, the more savings you'll typically need to support a longer period. Additionally, early retirees may need to bridge the gap before qualifying for Social Security or face higher healthcare costs before Medicare eligibility.

Conversely, if you plan to work until you can claim full Social Security benefits (or longer), your retirement period will be shorter, thus requiring fewer savings. This also allows you to continue saving and investing your income for retirement, earning compound interest along the way.

2. What Sort of Lifestyle Do You Want?

Regardless of when you retire, the lifestyle you envision in your golden years is a crucial factor in how much you'll need to save. For example, if you plan to travel extensively or pursue expensive hobbies, you may need more than the typical 80% of pre-retirement income rule. On the other hand, if you're aiming for a more frugal, simple way of life, you may need much less.

As you consider your desired lifestyle, be honest with yourself about your goals and the costs to achieve them. Consider large and small expenses, including where you'll live, whether you need to support your family, or how often you'd like to travel. By doing so, you can set a retirement savings goal and overall plan that's tailored to your aspirations.

It's also important to consider that, once you retire, healthcare costs will be entirely up to you to cover. This is often either by purchasing insurance or receiving coverage through Medicare, which you become eligible for at age 65. As you contemplate

your living expenses and lifestyle, it's essential to factor in elevated living expenses that you may not have had while you were working.

3. What Will Make Up Your Retirement Income Streams?

Another key detail is where your income will come from during retirement. While Social Security is often crucial for many retirees, it may not be enough to sustain the lifestyle you want or be an option if you retire early. For this reason, it's beneficial to consider additional income sources that can sufficiently support you.

The following are common retirement income streams:

- Employer-sponsored pension
- Roth IRA
- 401(k) or 403(b) plans
- Real estate
- Proceeds from selling a business
- Inheritance

We recommend sitting down with a financial advisor to explore potential retirement income streams and how they'll fit into your plan. This will allow you to begin establishing them or ensure they're on track for the future.

4. How Long Do You Expect to Live?

While it's difficult to think about or predict, your expected lifespan is a main aspect of how much you'll need to save. A central challenge for retirees is ensuring they don't outlive their savings. By reasonably estimating your lifespan, you'll gain a further understanding of what you'll need to live comfortably.

According to the World Health Organization (WHO), people are living longer worldwide



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than previous generations. For this reason, it's important to ensure you're planning for a longer retirement period. "The more we save and the earlier we save, the better," Pavone says. To ensure you're on the right track, it's essential to meet with a financial advisor to plan out how much you'll need annually based on your planned expenses and lifestyle needs.

Accounting for Inflation

Inflation, or the rising costs of goods and services according to the Consumer Price Index (CPI), is a challenge you'll need to consider for retirement. Even if you've saved up a sizable amount, increasing costs can reduce your purchasing power, making it more difficult to sustain your desired lifestyle. Housing, healthcare, and food are all examples of necessities that can see an impact.

Because inflation can threaten your retirement savings over time, planning for it is critical. Typically, you'll account for rising costs by maintaining an investment strategy that keeps pace with rising costs. "We really focus on having different buckets of money and income sources to ensure that the clients still have long term money growing to keep up with inflation," shares Bour.

Fixed-income investments, such as bonds and certificates of deposit (CDs), are one way to keep up with inflation. Additionally, allocating a portion of your portfolio to stocks can help you outpace it in the long term. A financial advisor will be able to help you sort these investments into various buckets and come up with a cohesive portfolio management strategy, as Bour explains above.

Planning for Unexpected Costs is Crucial

Even if you plan for certain expenses when

you retire, emergencies and costly surprises can happen. For example, you may experience a medical event, need to pay for long-term care, or support a family member. Without proper preparation, these can deplete your savings and, in some cases, derail your retirement plan.

Just as with any stage of life, it's a good idea to maintain an emergency fund to ensure you're ready for the unexpected. Moreover, maintaining health and long-term care insurance (if you feel you need it) are ways you can protect yourself from large, sudden expenses.

Mistakes While Saving for Retirement

Estimating your retirement savings target isn't an easy task, even if you consider the factors above. For instance, you could easily underestimate certain expenses, such as taxes or healthcare. Avoiding these will help you curb financial strain in the future because you'll be better prepared for what life throws your way.

"Underestimating healthcare – this includes everything from Medicare Part B premiums to accounting for a major health event like requiring long term care," cautions Morgan Veth, CFP®, financial advisor and vice president at Bogart Wealth. She notes that the "best way to avoid this pitfall is by educating clients and making sure they are incorporated in the financial plan."

Another notable mistake people make is not accounting for "costs for major life events that their children may have, such as a wedding," adds Veth. "If you're creating a financial plan when your children are in college, a

wedding for them may not even be on your radar," she says. If a wedding or similar event is a goal for your children, it's wise to factor such expenses into your retirement plan.

How a Financial Advisor Helps You Save for Retirement

To plan effectively for retirement, you must have a defined strategy. A financial advisor can help you assess your desired lifestyle, goals, and expenses. Then, they can work with you to build a comprehensive retirement plan, including how much you need to save based on your income sources and savings needs.

However, an advisor isn't just integral for saving money. They can assist you with managing your investments to grow your wealth over time with compound interest. For example, if you have a Roth IRA that houses much of your savings, a professional may be able to recommend assets or invest on your behalf, depending on your arrangement.

As you search for advice, it's best to work with a high-quality fiduciary financial advisor who prioritizes your best interest. More specifically, experts with prestigious titles, such as Certified Financial Planner (CFP) or Chartered Financial Consultant (ChFC), have the necessary experience and high standards to help you plan for retirement. If you need help locating a professional, this free tool will match you with a vetted expert who suits your needs.

Nick Bour is the founder and CEO of Inspire Wealth in Brighton, MI. Nick has been in the financial services industry for over twenty years. After working across several major companies throughout his career, Nick decided to build his own firm to fully realize his vision for a business model that would equip clients with the knowledge and tools to plan for their tomorrow.

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