THE Time TO Plan IS Now

Have you ever asked yourself, "How much will I need for retirement, and what amount should I save each month to achieve this goal?" Taking a bit of time to ponder your future financial needs is monumental, yet many of us will devote more time planning a vacation than planning for retirement.

"He who fails to plan, is planning to fail."

– Winston Churchill

The very first step is determining "how much?" *Unfortunately there is simply no way to answer that question*! Individual variables such as longevity and health expenses will create significant fluctuations. What about investment elections, market returns, and inflation? It's essentially impossible to determine a retirement nest egg amount that will be *exactly* right. So what now?

There are multiple methods that can provide a "ballpark" number to help you consider your nest egg goal. This article will cover two methods that may help you set your nest egg goal, and give some tips on how to meet that goal.

The first method is explained in the "How Large Should My Nest Egg Be?" handout found on the NPERS Financial Facts webpage. This calculation looks at an individual retiring at age 65 and their gross salary (income) at that time. Then factoring in various assumptions, an estimated amount required to maintain that same level of income is calculated out to four different ages.

How should you read this chart? Assuming a gross salary of $30,000; if you expect to live to age 90, you would want to have accumulated approximately $496,000 when you terminate employment at age 65. If ALL the assumed variables are correct… and dare I say they won't be, this amount will allow you to maintain your $30,000 a year level of income up to age 90.

Here are the assumptions:

- You retire at age 65.
- You are single.
- Inflation averages 4% annually.
- Your Social Security is calculated using current rates.
- Social Security COLA's will average 1.6% annually.
- Your retirement plan account balances earn 5% annually during retirement.

Salary At Age 65	Life Expectancy/Nestegg Amount*			
	Age 85	Age 90	Age 95	Age 100
$20,000	$234,000	$292,000	$349,000	$406,000
$30,000	$402,000	$496,000	$588,000	$679,000
$40,000	$534,000	$659,000	$782,000	$903,000
$50,000	$673,000	$830,000	$985,000	$1,137,000
$60,000	$808,000	$996,000	$1,182,000	$1,364,000
$70,000	$942,000	$1,162,000	$1,379,000	$1,592,000
$80,000	$1,083,300	$1,332,459	$1,585,626	$1,823,470
$90,000	$1,234,962	$1,519,003	$1,807,614	$2,078,756
$100,000	$1,395,507	$1,716,474	$2,042,604	$2,348,994

The second method employs the asset distribution process outlined in the NPERS "Nest Egg Management After Retirement" handout. As a general rule of thumb, many financial advisors currently recommend a 4% annual distribution rate from retirement assets. A rough estimate of your nest egg can then be calculated using this rate of distribution. If you anticipate needing $30,000 of annual income during retirement, then you will need a nest egg of approximately $750,000 to provide those funds.

$750,000 X .04 = $30,000

Why are the numbers so different from method one to method two? There are several reasons.

The first method is significantly more complicated and includes Social Security benefits plus the effect of inflation, the second method does not. They also differ in the preservation of your nest egg. Under the first method, your account is depleted upon reaching the age selected for life expectancy. If you die prior to that age there would be funds left. If you lived longer, you would have depleted your nest egg at that age. The second method, in theory, provides an income of $30,000 per year and retains the initial balance of $750,000 regardless of how long you live.

Which method is "best?" That is a tough question. Under the first, your life expectancy is a critical and unknown factor. Under the second, inflation could create issues later in retirement. Poor investment returns or higher distribution amounts can have a drastic effect on both methods. *The mission is not to determine an exact amount, but to determine an initial ballpark figure.*

Once you have set your ballpark nest egg goal, now you need to take the steps required to achieve it. Again, there are variables that will come into play.

How long do you have to save? The sooner you start, the easier it will be to reach your goal. Individuals who fail to begin saving at an early age will slowly lose out on the power of compounding interest. Ask yourself, "At what age do I want to begin my retirement and how many years do I have left to save?" *The longer you delay, the more difficult it will be to reach those goals*.

Once you have established a saving timeline, then you need to estimate how much to save each month. This amount will vary depending on the rate of return you hope to achieve from your investments. Historically, an aggressive strategy will have greater volatility and a higher rate of return *over time*. Conversely, a conservative approach will result in lower returns but there will be less volatility *over time*. An aggressive strategy can reduce the amount you need to save each month BUT you need to carefully consider your tolerance for risk and your retirement timeline. Which approach is right for you? Only you can answer that question.

An aggressive portfolio will be a bumpy ride. You must be able to shrug off the temporary reductions in account value that occur during a down market, and resist the urge to panic – and sell. Selling during a down market can turn a temporary reduction in account value into a *permanent loss*. Professional investors recommend buying rather than selling during these downturns as stock is essentially on sale. Keep in mind how much time you have until retirement. An aggressive investor should consider moving a portion of their investments into more conservative options as they grow closer to retirement.

For more information on the do's and don'ts of investing, please consider viewing the Investment Education video found on the NPERS website. This video covers the 13 investment options available for the voluntary state's Deferred Compensation Plan and provides an outline on the basics of investing.

Now let's put together a few "action plan" examples.

For our example, let's assume a nest egg goal of $500,000 at age 65. Your personal goal may be higher or lower, but this is what we will use for the example. Using an online savings calculator*, let's break out the amount for both a "conservative" (4% compounded daily) and "aggressive" (7.5% compounded daily) rate of return.

If you start early at age 25, you have 40 years to save!

	Aggressive 7.5%	Conservative 4%
Monthly amount to save…	$164.05	$422.06
Daily amount…	$5.39	$13.88

If you wait just five years and begin at age 30, now you have 35 years to save.

	Aggressive 7.5%	Conservative 4%
Monthly amount to save…	$244.55	$546.13
Daily amount…	$8.04	$17.95

If you delay until age 40…

	Aggressive 7.5%	Conservative 4%
Monthly amount to save…	$567.35	$971.17
Daily amount…	$18.65	$31.93

There is no way to know the actual rate of return a conservative or aggressive investor will obtain in future markets. Obviously you will never see a fixed rate of return due to market fluctuations. The point is starting early and the investment strategy you select, will both have a significant impact on the amount you need to save.

Each individual is different. It is your responsibility to determine your retirement goal and select an investment strategy/saving rate that will work for you.

"Do... or do not. There is no try." – Yoda

*For this article we used the savings calculator found on the Bankrate.com website. Nest Egg numbers were provided by Morey-Voorhees Financial Services, Omaha, Nebraska. *Please note NPERS does not endorse any private vendor or entity.*