Retirement planning is a multi-step process. To start:

1. **CALCULATE YOUR RETIREMENT EXPENSES** – to do this, you need a budget. Even though your retirement may be years away, you can use your existing budget to get a guesstimate of retirement expenses. Do not assume your costs will go down. Most believe they will spend 70-80% of their pre-retirement budget. However, it turns out that what you save in commuting costs and work attire is made up by spending on health care, leisure activities, and travel. Therefore, your retirement budget is NOT different from your current budget unless you relocate to a less expensive area.

2. **ESTIMATE THE AMOUNT OF INCOME YOU WILL RECEIVE FROM SOCIAL SECURITY** based on your intended retirement age. To do this, review your social security account online at: https://www.ssa.gov/myaccount/

   In 2023, the maximum amount paid by Social Security was approximately $2572 per month if you started collecting at age 62, $ 3,279 per month if you started collecting at age 65, and $4555 if you started collecting at age 70. Many individuals will be paid less; it depends on their earnings throughout their working years.

3. **DETERMINE THE AMOUNT OTHER SOURCES OF INCOME WILL CONTRIBUTE,** such as part-time work, pensions, and annuities. Total the amount of income those sources will generate annually.

4. **CALCULATE YOUR INCOME GAP -** by taking expenses #1, deducting social security #2, and other income #3 to calculate your annual "gap." For example, if you need $ 80,000 to cover your retirement expenses and expect Social Security to contribute $30,000 and a pension or part-time work to provide $20,000, your gap is $30,000. (80,000-$30,000-$20,000 = $50,000.)

   The gap must be met by your Retirement Fund, which you have saved during your working years

5. **CALCULATE THE AMOUNT OF RETIREMENT FUNDS NEEDED TO SUPPORT THE GAP** by multiplying the gap by 25.

   This technique assumes you would withdraw 4% annually from your Retirement Fund; 4% is considered a safe withdrawal rate, allowing your money to last your lifetime. However, it assumes that your retirement account is invested prudently, with approximately 50% in stocks and 50% in bonds. (See below on Investment strategies) It also assumes you will withdraw at a constant rate and not raid your account for large amounts.

As an example:

Gap	Multiply by 25	RETIREMENT NEST EGG NEEDED
$ 25,000	25 =	$ 625,000
$ 50,000	25 =	$ 1,250,000
$ 75,000	25=	$ 1,875,000
$ 100,000	25 =	$ 2,500,000

While it can be daunting to look at these numbers, if you have TIME to save towards a retirement account (401K or ROTH), you will benefit from compounding interest and dividends, tax-free growth, and riding out a market that goes up and down.

Many calculators can help you make projections on the future value of your Retirement Fund. While each is slightly different, they all revolve around the same questions.

- **How many years do you have to save until retirement?** They often ask how old you are and assume you will retire at 65 or 67.

- How much have you saved to date? And they assume this is in a retirement account that will grow tax-free.

- How much do you plan on saving in the future? Or they may ask, what is your current salary, and what percentage are you saving for retirement?

They are worth playing with to see what you must do to reach your goals.

https://www.nerdwallet.com/investing/retirement-calculator

https://investor.vanguard.com/tools-calculators/retirement-income-calculator

https://www.schwab.com/retirement-planning-tools/retirement-calculator

OTHER RESOURCES ON RETIREMENT PLANNING

https://www.investopedia.com/terms/r/retirement-planning.asp

https://www.investopedia.com/401k-age-limits-too-young-5323754

SIDEBAR on INVESTMENTS - It is generally accepted that stocks, over time, produce a higher return than bonds. In fact, as of March 2023 for the past 20 years the average annual return on

US Stocks was around 10%
https://seekingalpha.com/article/4502739-average-stock-market-return

US Government Bonds was around 3.8%
http://www.worldgovernmentbonds.com/bond-historical-data/united-states/20-years/

However, stocks are FAR more volatile, meaning their value changes from high to low with greater frequency and steeper movement. (Think of a roller coaster,) As people get closer to retirement, they do not have a lot of time to "recover" from bad markets, so they shift their diversification percentage away from stocks and towards bonds. An accepted diversification ratio is as follows:

Age	**Years to retirement**	**Stocks**	**Bonds**
20	45	100%	0%
30	35	100%-90%	0%-10%
40	25	80%	20%
50	15	70%	30%
60	5	60%	40%
In retirement	0	50-60%	50-40%

To assist individuals, the investment community created Target Date funds which automatically shift investments from stocks to bonds as individuals get closer to retirement.

Target Date funds are an excellent way to save for retirement.
https://www.blackrock.com/us/individual/education/retirement/what-is-a-target-date-fund