Quarterly Retirement Review

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S.L. Reed & Company

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Retirement Savings Benchmarks

As retirement nears, savings benchmarks can help you gauge whether you'll be able to reach your savings goals.

Most people looking to retire around age 65 should aim for assets totaling between seven and 13 ½ times their preretirement gross income.

The range gets wider as you get older, so we are providing more detailed estimates for workers approaching retirement.

This helps someone find a realistic target based on income and marital status, which affect Social Security benefits.

See the following chart.

Savings Benchmarks for Late-Career Investors

Current Household Income	Married, Dual Income			Married, Sole Earner			Single		
	Age 55	Age 60	Age 65	Age 55	Age 60	Age 65	Age 55	Age 60	Age 65
$75,000	5x	6½x	8x	4½x	5½x	7x	6½x	8½x	10½x
$100,000	5½x	7½x	9½x	5x	6½x	8x	6½x	8½x	10½x
$150,000	6½x	8½x	10½x	6x	7½x	9½x	7x	9½x	11½x
$200,000	6½x	8½x	10½x	6½x	8½x	10½x	7½x	10x	12½x
$250,000	7x	9x	11x	7x	9½x	12x	8x	10½x	13x
$300,000	7x	9½x	11½x	7½x	10x	12½x	8x	11x	13½x

Key Assumptions: "Dual income" means that one spouse generates 75% of the income that the other spouse earns. Household income grows at 5% until age 45 and 3% (the assumed inflation rate) thereafter. Investment returns before retirement are 7% before taxes, and savings grow tax-deferred. The person retires at age 65 and begins withdrawing 4% of assets (a rate intended to support steady inflation-adjusted spending over a 30-year retirement). Savings benchmark ranges are based on individuals or couples with current household income between $75,000 and $300,000. Target multiples at retirement reflect estimated spending needs in retirement (including a 5% reduction from preretirement levels), taxes, and Social Security benefits based on the SSA.gov Quick Calculator. All investments are subject to market risk, including the possible loss of principal.
All charts and tables are shown for illustrative purposes only.

Source: T. Rowe Price

INCOME VS. SPENDING

Many people find that it's easier to think about money in terms of income rather than spending. For example, how much money do you make? That's a fairly easy question. How much money do you spend? That one might be harder to answer. What exactly counts as spending? Are you including taxes? If you're paying down a mortgage, is the principal portion considered spending? What about your child's tuition payment from a 529 account?

These questions highlight how, for many people, calculating total spending can be more difficult than simply looking at income. That's why your income replacement rate i.e. the percentage of your preretirement income before taxes that you'll need to support your lifestyle in retirement can be a useful planning tool.

This simple metric may help you put your retirement finances into clearer context. The key to making this percentage useful is to estimate it with your specific financial situation in mind.

INCOME REPLACEMENT RATE

Start with a general rule of thumb that you will need about 75% of your current income in retirement. This means that if you make $100,000 shortly before retirement, you can start to plan using the ballpark expectation that you'll need about $75,000 a year to live on in retirement. You'll likely need less income in retirement than during your working years because:

1. Most people spend less in retirement.
2. Some of your income during your working years went toward saving for retirement, which isn't necessary any more.
3. Your taxes will likely be lower, especially payroll taxes, but probably income taxes as well.

The 75% income replacement rate ballpark figure is based on a reduction in taxes estimated at 12% of your preretirement income, reducing your spending at retirement by 5%, and saving 8% of your gross household income during your working years.

The 8% number was selected because it's about the average that people are saving in their retirement account, according to T. Rowe Price studies.

Tailoring the "rule of thumb"

These savings and spending assumptions may not fit your situation so the 75% starting point may not be right for you.

Fortunately, this is an easy adjustment to make:

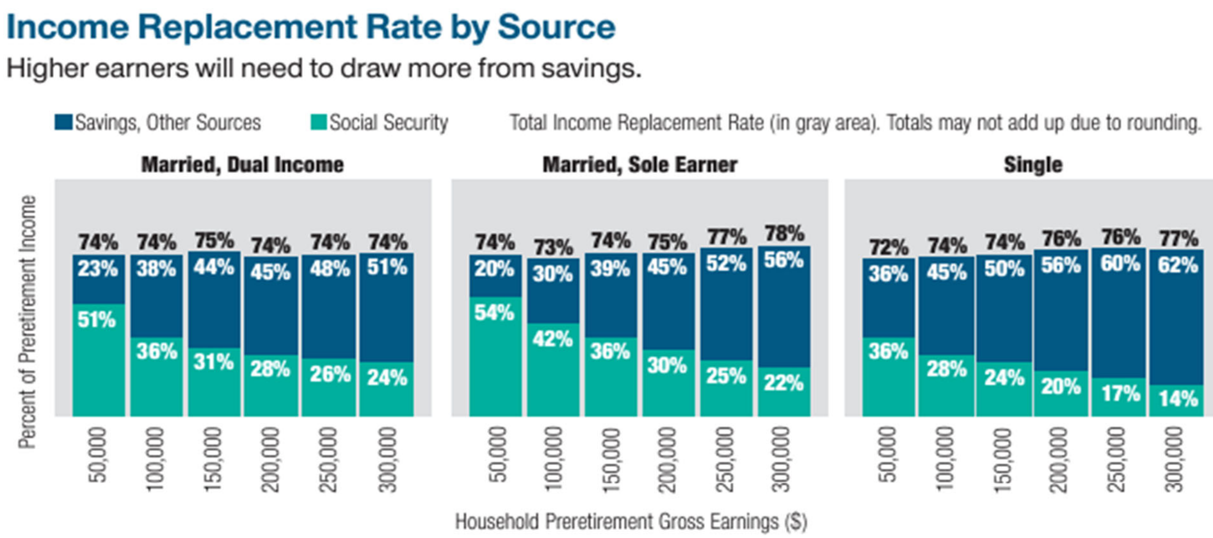
Every extra percentage point of savings beyond 8%, or spending reduction beyond 5%, reduces your income replacement rate by about one percentage point.

If you're saving 12% of your income instead of the assumed 8%, take your replacement rate of 75% and subtract four percentage points, resulting in a personally adjusted estimate of around 71%.

The idea here is that if you were saving more of your income during your working years, you were spending less of it.

Therefore, if your spending remains the same in retirement, your income replacement rate will be lower. If you expect to spend more in retirement, then you will want to consider a higher replacement rate.

INCOME REPLACEMENT RATE BY SOURCE



Calculations reflect savings rate trajectories intended to achieve savings benchmark at age 65; see "Savings Benchmarks for Late-Career Investors" on page 18 for more details. Underlying assumptions include a 3% inflation rate, investment returns before retirement of 7% before taxes, with savings growing tax-deferred. The person retires at age 65 and begins withdrawing 4% of assets (a rate intended to support steady inflation-adjusted spending over a 30-year retirement). Calculations reflect estimated spending needs in retirement (including a 5% reduction from preretirement levels); Social Security benefits (using the SSA.gov Quick Calculator, assuming claiming at full retirement age, and the Social Security Administration's assumed earnings history pattern); state taxes (4% of income, excluding Social Security benefits); and federal tax laws as of January 1, 2023.

Source: T. Rowe Price

Where you've saved affects your replacement rate:

How you've saved for retirement also affects the replacement rate. The 75% starting point assumes all savings are pretax, like a Traditional 401(k) or individual retirement account (IRA). That's a conservative assumption, since generally you're fully taxed on those assets when you withdraw them. Saving with a Roth account, on the other hand, is after tax and can generate tax-free income when distributions are qualified (Generally, qualified distributions are tax-free at age 50 ½, and have held the Roth account for at least 5 years). This means that if you have a large portion of your retirement savings in Roth accounts, your income replacement rate should be lower.

Other factors that impact your rate:

Finally, your marital status and household income are two factors that affect Social Security benefits and your tax situation. Those two factors, in turn, affect your income replacement rate. The 75% starting point reflects a household earning around $100,000 to $200,000 before retirement.

Understanding the income, you'll need from sources other than Social Security can help you estimate a savings level to aim for before you retire. At higher income levels, Social Security benefits make up a much smaller percentage of the total income replacement rate, meaning you'll need more savings or other income sources to fund retirement.

There is no "right" number than works for a everyone, and your situation can change over time. As you approach retirement, it will be important to assess your spending needs more carefully. But for someone several years from retirement, the income replacement rate, which is based on estimated spending, can be a helpful guide.

The Right Time to Take Social Security

Maximize your Social Security

Some couples may decide to continue working through their 60s and not take their Social Security benefits right away. Let's look at a hypothetical couple, Paul and Jane. If each file for Social Security benefits at age, 70, they will both receive the highest annual benefit based on their personal work histories.

In exchange for delaying Social Security income until age 70 they have the potential to receive over $300,000 more in lifetime benefits.

Paul's annual benefit	At age 62	$12,804
Jane's annual benefit	At age 70 Survivor benefit	$35,952 $35,952
Cumulative lifetime benefit*		$1,167,684

*Includes annual benefits for Paul from age 62 to age 83, plus Jane's benefits from age 70 until her death at age 95.

Collect some now with Larger Survivor benefit later

If Paul and Jane want to maximize the benefit for the surviving spouse (in this illustration, Jane), they can pursue a split strategy. They can wait to take the higher-earning spouse's (i.e., Jane's) benefit when she is age 70, while beginning to take Paul's benefit early at age 62.

In this second illustration, Paul's claiming at age 62 provides some income while the couple are in their 60s while Jane's delay helps boost the couple's benefits significantly. For the future.

Paul's annual benefit	At age 70	$24,444
Jane's annual benefit	At age 70 Survivor benefit	$35,952 $35,952
Cumulative lifetime benefit*		$1,216,572

*Includes benefits for both Paul and Jane from age 70 to age 83, plus Jane's benefits until her death at age 95.

Source: T. Rowe Price

HAS ANYTHING CHANGED?

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