

Retirement Formula Sheet

To determine how much money you will need in your retirement accounts by the time you retire, there is a simple formula. First decide how much annual income you want to have each year when you retire. Let's say you want \$100,000 income annually. We are not taking into consideration any Social Security income in this scenario. If SS is still around when you retire, then you will have more principal amount of money in your retirement accounts than you might need by then. At that point, you can then decide if you want to take out less each year from your retirement accounts, or leave it in there to take care of your later needs or to leave to your family or beneficiaries, after your death.

Ok, so you want to have \$100,000 per year income and you should calculate an average of 8% return per year on your investments in your retirement accounts. You might get more or less per year, but this is an average. Divide the \$100,000 by .08 and you will get your number.

$$\text{\$100,000} \div .08 = \text{\$1,200,000}$$

Or

$$\text{\$50,000} \div .08 = \text{\$625,000}$$

And so on – you simply divide your desired annual income by .08, reflecting an 8% return on your money. If you think you will get more than 8%, then divide your desired annual income by that percentage like this:

$$\text{\$100,000} \div .12 = \text{\$833,333}$$

Or

$$\text{\$50,000} \div .12 = \text{\$416,666}$$

As you can see, the higher your percentage return on your investments, the less money you need in your accounts to work with. You should make this decision yourself, and I would suggest you talk to your financial advisor about the realistic returns to expect. I personally am basing my return on the lower end of 8%.