

How do you save for retirement? Start early, and stay on track

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So you bit the bullet and started saving for retirement. That's great, but if you're like most, you've been haunted by a persistent question that you've never taken the time to get answered: "Am I saving enough to be able to afford to retire?"

It's a difficult question to answer, with numerous variables to consider. And there's not enough space in this column to address this question definitively.

Rather, the table accompanying this column is designed to give you a general idea of how you're doing. Here's how to read it:

The numbers in the table tell you what multiple of your current income you should have saved for retirement at different ages. Understand, these figures are just averages. Actual calculations vary depending on individual retirement needs and the significance of other sources of retirement income such as a pension or Social Security.

If you're 35 and earning \$45,000, for example, the table suggests that you should have 0.8 times your pay, or \$36,000 saved for retirement.

According to the table, a 50-year-old earning \$75,000 should be sitting on 3.5 times his pay, or \$262,500, for retirement.

Kind of takes your breath away, doesn't it?

The recommended savings amounts in this table are based on a number of important assumptions. They assume that the amount of money you retire on will cover your expenses until age 90, at which time you run out of savings.

They also assume a basic component from Social Security, and that you are able to generate a 7% return on your retirement assets.

Many falling short

If you're like most American workers, your current retirement savings fall short of the numbers in the table. According to a recent survey released by Fidelity Investments, the typical American worker has saved only enough to cover 20% of the income needed in retirement.

If you think you may fall into this category, here are some age-appropriate suggestions for ways to get back on track.

For those of you just starting out, the biggest problem that we see is that people in their 20s and 30s are too busy spending money to save it for retirement.

In the early years, you must have the discipline to live within your means and control the amount of debt you accumulate. Combined monthly debt repayments (student loan, credit card, car, home, etc.) should not consume more than one-third of your take-home pay.

Stick to one credit card, opt for a quality used car instead of new, and buy a home that does not soak up too much of your disposable income.

Savings Targets

To determine what you should have saved for retirement at various ages, multiply your current income by the number below.

Age	Multiple
25	0.1
30	0.3
35	0.8
40	1.6
45	2.5
50	3.5
55	4.8
60	6.5
65	9.0

Source: Francis Investment Counsel LLC

Try "paying yourself first" by establishing a payroll deduction or automatic withdrawal savings program, and then feel free to spend what is left. Shoot for a target savings rate of at least 10% and make sure to take full advantage of all company matching contributions that are available to you.

Time to get serious

You should be well on your way by now, but as the table suggests, achieving financial freedom in your 60s is no easy task.

If you have managed to accumulate some assets, your 40s and 50s are the years to get serious about investment results.

Just a few extra percentage points of return each year on a large pool of assets can mean the difference between bouncing your grandchildren on your knee, and working a part-time job to cover your ever-rising health care costs in retirement.

To get back on track, you may need to seriously consider increasing your savings rate well in excess of 10% of your income. That could entail sacrifices in your current lifestyle.

Make saving more painless by gradually increasing your salary deferrals in small increments each year.

Alternatives

Increasingly, American workers are considering alternatives to a traditional retirement because of the financial realities they face.

Some are simply working longer, accepting part-time jobs, or accepting a reduced standard of living in retirement to make up for a lack of saving during their working years.

Hopefully, this quick status check on your retirement savings will provide you with an indication if you are on track, and motivate you to make the changes necessary to get pointed in the right direction.

These numbers may seem a little daunting, but better to get an idea of where you stand while you still have time to do something about it than to blindly head toward retirement and arrive there unprepared.

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