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How Much Do I Really Need to Retire?

Plus, see how your retirement savings stack up against the average by age

Many people find that shooting for a specific goal drives their motivation to save. PHOTO: Jeff Westbrook for Buy Side from WSJ. STYLING: Miako Katoh for Buy Side from WSJ.

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Retirement can be a beautiful phase of life, but planning for it is a puzzle. Without knowing how long retirement will last, you have to decide when to leave work, where to live, how to spend your days—and what it all will cost.

“That’s a question I get all the time—am I saving enough?” says Shinobu Hindert, a certified financial planner in San Diego. “It is different for everybody.”

There’s no replacement for starting early, so when you begin your career and retirement savings journey, it makes sense to focus on putting away whatever you can and to target a certain percentage of your

income. Over time, however, many people find that shooting for a specific goal—such as retiring with $1 million—helps motivate them to save.

A precise retirement savings target has several benefits. It helps you figure out how much to put into 401(k)s and other investment accounts each month and how to arrange your investments so that you're not risking too much—or too little—in the decades leading up to retirement.

Some people even build retirement around a savings target rather than a date. Instead of working until a certain age, they work until they hit their mark (this is the premise of the financial independence retire early movement, aka FIRE).

Here are some simple guidelines to consider when pricing your retirement.

Average retirement savings by age

Let's start by taking a look at the average retirement savings by age in the U.S. based on the Federal Reserve's 2022 Survey of Consumer Finances.

Age	Average retirement savings (2022)	Median retirement savings (2022)
Under 35	$49,130	$18,880
35 to 44	$141,520	$45,000
45 to 55	$313,220	$115,000
55 to 64	$537,560	$185,000
65 to 74	$609,230	$200,000
75 or older	$462,410	$130,000

The average saver between ages 35 and 44 has $141,520 saved. People in the next age group, 45 to 55, have more than double that amount—$313,220—stashed away, on average. The older people are, the higher their savings tends to be—until about age 75, when the average balance starts to decline as retirees spend down their investments.

Averages, however, can be deceiving. Very high or very low balances can skew the numbers. The median savings by age, while lower, represents a more accurate picture of how much the typical saver has set aside for retirement.

While this data can be interesting as a point of comparison, using it to choose your retirement savings target isn't the best approach. Most Americans should be aiming much higher to fund a comfortable retirement, research shows.

A 2023 Fidelity analysis of more than 3,500 savers found that roughly half of those surveyed weren't on target to meet their retirement needs. The typical saver—across all age groups—is only prepared to have 78% of the income they need to cover expenses in retirement.

Millennials (currently ages 27 to 42) were in worse shape than baby boomers and Gen Xers, the report said. But they have time to get on the right track by making steady contributions to tax-advantaged accounts and staying invested through downturns in the market.

How much money do I need to retire: three guidelines to consider

When we talk about how much money we need in retirement, we're really trying to predict two things: how much you're likely to spend in a year and how many years you'll be retired. Luckily, financial experts have a few approaches for figuring out how much you need to save—and spend—to avoid running out of money no matter how long you live. (No reading of complicated actuarial life expectancy tables required.)

Here are three methods to estimate your retirement spending.

1. 80% of your preretirement income

Over decades of helping people plan for retirement, the financial planning industry has figured out that most retirees can live on less than they earned during their working years.

"Replacing 80% of your income means your lifestyle can essentially stay the same," Hindert says. That's because, once you retire, you're no longer paying Medicare and Social Security taxes or making contributions to a 401(k) or IRA.

Additionally, you probably don't have to pay for things such as weekly dry cleaning or commuting to an office (though some of us already gave those expenses up when working from home became more common). If you pay off your mortgage and debts before retiring, you could live on smaller portion of your preretirement income.

Based on this rule, if your annual preretirement income was $100,000, you need $80,000 a year in retirement to cover your expenses. Some of that will come from Social Security benefits, which you can estimate using this calculator, or perhaps a pension or annuity. However, most people will need to get the majority of their retirement income from a 401(k), IRA or other savings.

Let's say you collect annual Social Security and pension income of $30,000, after taxes. Sticking with the $80,000 example, that means you need an additional $50,000 in income a year.

Assuming an inflation rate of 4% and a conservative after-tax rate of return of 5%, you should aim for a savings target of $1.3 million to fund a 30-year retirement that begins at age 67. This would give you an investment portfolio that produces about $50,000 a year in income.

2. 10x your annual salary by 67

The financial-services firm Fidelity suggests that savers can target a much lower income replacement percentage than 80%. To maintain a lifestyle similar to the decade before retirement, a 45% income replacement target is sufficient. To achieve that, Fidelity recommends aiming for the following age-based savings targets:

Your age	Savings target by salary multiple
30	1x
35	2x
40	3x
45	4x
50	6x
55	7x
60	8x
67	10x

Fidelity says you should be able to meet these targets if you start saving at age 25 and invest 15% of your annual income in an age-appropriate mix of stocks and bonds. In general that means keeping the bulk of your investments in stocks when you're young. As you approach retirement, shifting into bonds and cash can add stability to your portfolio.

To fund an "above average" retirement lifestyle—where you spend 55% of your preretirement income—Fidelity recommends having 12 times your income saved at age 67, which is the normal Social Security retirement age. That multiple can creep up if you plan to claim benefits earlier than 67 or you have a long life expectancy.

Fidelity based its benchmarks on an analysis of household survey data from the Bureau of Labor Statistics for working people aged 50 to 65, which measures how much people spend on everything from housing and food to healthcare and transportation. Your own budget may vary, which is why it's important to do an analysis of your spending before setting a savings target (more on that below).

3. The 4% rule

Another method to project how much money you'll need in retirement is the 4% rule.

That's a framework proposed in the 1990s by a now retired financial advisor, and supported by investment research from Morningstar, that shows retirees can safely withdraw 4% of their portfolio in the first year of retirement. If they adjust subsequent annual withdrawals for inflation, they should not run out of money in most market conditions.

The idea is that your investment earnings and appreciation keep you ahead of inflation. This assumption holds up during low inflationary periods and strong market conditions, but a string of high inflation or bad returns could necessitate lowering your spending.

To find your savings target, multiply your projected annual spending by your projected years in retirement. For example, if you need your nest egg to generate $60,000 annually and you anticipate 25 years in retirement, you need $1.5 million. In this case there's a 95% chance your savings will last, according to Vanguard's retirement calculator, if half of the portfolio is invested in stocks, 30% in bonds and 20% in cash.

How much money do I need to retire: personal factors to consider

Of course, the guidelines are just a starting point. It's important to consider a range of personal factors to fine-tune your retirement savings target.

If you plan to travel often or set up an inheritance for your children, chances are you will need more than the guidelines suggest since you have to plan for expenses beyond your daily routine. If you see yourself downsizing, moving to a less expensive city or otherwise significantly reducing your expenses in retirement, you may need less.

Your retirement location

Two people living in different parts of the U.S. will have different retirement income needs, in some cases vastly so.

"The first question I want to know is where do you want to live? If you're living in New York where I am, well that number is going to be higher than in other states or out of the country even," says Craig Ferrantino, a financial advisor in Melville, N.Y.

Projecting your cost of living in retirement will be fairly straightforward if you plan to stay put, since you know the typical cost of dining out, entertainment, medical care and other daily purchases.

If you're thinking about moving to a new state when you retire, Hindert suggests taking an extended trip there to explore the lifestyle and meet with a local real-estate agent.

Your retirement spending

If you're within a decade of retirement, put a finer point on your spending projections by taking a close look at current monthly expenses and whether those might change when you're no longer working. Commuting costs, for example, will fall off your budget but healthcare spending could grow with age.

Consider whether it's possible to pay off or refinance your mortgage, car loan or other debts while you're still working. "As much as they can be debt-free going into retirement, the better," Hindert says. This opens up more flexibility in your budget, even on a fixed income.

It's also important to think about significant expenses on the horizon, she adds, such as putting a kid (or two) through college or paying rent. If you own your home, do a home assessment to identify any large projects, such as a renovation or a roof replacement, that you can pay for before you retire or sell your home. "It's easier to do that when you have income coming in," she says.

Your retirement date

Timing your retirement is tricky. Americans, on average, are waiting until age 62 to retire—up from 57 three decades ago. Some are forced to delay retirement while they stockpile more savings, while others are hesitant to part ways with a fulfilling career or work-related identity.

Alas, your retirement savings target depends on when you plan for it to start. No one knows exactly how many years of retirement they will need to fund, but you can make an educated guess by considering your family's health history and data on life expectancy (the average American man at age 50 can expect to live about 28 more years, while the average woman can expect to live for about 33).

You should also think about when you're going to start collecting Social Security. Social Security benefits for someone retiring at 65 replace about 30% to 50% of prior earnings—the replacement share is higher for those at the lower end of the income spectrum. The longer you wait to claim, up to age 70, the more you can collect.

Where to keep your retirement savings

If your job offers a 401(k) or 403(b), don't sleep on it. Employer-sponsored retirement plans are the best place to start your savings journey. You can fund them with up to $23,000 in 2024 and get a tax break for it—a benefit that's missing from traditional investment or brokerage accounts.

"If you defer 10% of your salary to the 401(k), that's 10% of your salary that's not being currently taxed," Ferrantino says. Many employers will match a portion of your contributions to a retirement plan, giving you extra cash to invest and grow.

If you don't have access to a 401(k) or similar plan at work, or you need to save more than the plan allows, consider traditional and Roth IRAs. These accounts offer comparable tax benefits, a wider selection of investments and greater withdrawal flexibility.

Is it possible to oversave for retirement?

With these benchmarks in mind, you may feel empowered to kick your savings into overdrive. But financial experts caution against saving for retirement to the exclusion of other goals. If you're forgoing family vacations or sitting on credit card debt to save more for retirement, it may be time to reprioritize.

Even if you're able to balance other financial goals with retirement savings, check in every few years to see whether you're putting too much money into a pretax account.

"In an ideal world, you'd want to have an equal amount of assets in retirement that you have not paid taxes on"—for example in a traditional 401(k)—"versus money that you've already paid taxes on," such as that in a Roth account, Hindert says.

This helps avoid a "tax windfall" in your 70s, when some pretax accounts start requiring annual distributions. A big distribution can mean a hefty tax bill. Splitting contributions between a Roth IRA or Roth 401(k) and a traditional 401(k)—or rolling over funds into a 401(k) and paying taxes now—could set you up with a pot of tax-free income in retirement.

"That could be a kind of check-in for someone to go, am I saving too much? How much am I getting closer to that goal?" Hindert says.