



Action Plan:

CALCULATE HOW MUCH YOU'LL NEED FOR RETIREMENT

You know that it's important to save for retirement, and may already be setting aside some money in an individual retirement account (IRA) or the Thrift Savings Plan (TSP). But do you know how much you should be saving to cover your expenses in retirement? Take these steps to figure it out.

1

Estimate your retirement expenses (in today's dollars). Your expenses could change as you shift into retirement, so you will need to get a good sense of what costs you will have to cover. For example, food costs will likely change as prices do, but your transportation costs could decrease since you won't be commuting to and from work. If you pay off your mortgage before retiring, your housing costs would go down as well. Healthcare costs, on the other hand, could increase during retirement.

There are some [planning tools](#) that can help you get a good estimate of your retirement expenses, so you may want to start with one of these. In any event, a clear understanding of your anticipated retirement expenses is an essential first step in figuring out how much income you'll need in retirement.

2

Estimate your retirement income. A common rule of thumb used by financial planners is that you'll need to replace 75 to 85 percent of your current income to live comfortably in retirement. To calculate your replacement rate, as it's called, you'll need to find out how much you're likely to receive from your various sources of retirement income.

You can start with the Social Security Administration's benefits calculators to estimate your income from Social Security. Next, find out from your current employer and former employers what benefits you have from vested pensions (but don't include benefits that you haven't qualified for yet). Then, if you have assets in retirement accounts like the TSP or an IRA, you'll need to figure out how much money you have accumulated to date and can count on for retirement. Finally, add any other income sources unique to you. Remember to factor in how long you expect these sources of income to last while you are in retirement.

DIFFICULTY:

EASY TO MODERATE

WHAT YOU'LL NEED:

- Calculator
- Your financial statements and records
- Check Your Options to Save for Retirement Action Plan
- Retirement Savings for Spouses Action Plan

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- 3 Calculate the gaps.** Subtract your retirement income from your retirement expenses to estimate the gaps you'll need to fill from your own savings. Our [Retirement Calculator](#) can help you. It adjusts your current expenses for inflation through the years and also factors in your estimated investment performance, how much you've saved already, how long you expect to live in retirement and how your savings will be taxed. If you had invested in a pre-tax 401(k) or Thrift Savings Plan, keep in mind that your withdrawals will be taxable. That means you'll need more money to cover your expenses than you would with a Roth IRA, for which withdrawals in retirement can be tax-free.
- 4 Adjust your savings.** Members of the military can contribute up to \$18,500 to the TSP in 2018 (\$24,500) if age 50 or older—or up to \$55,000 for the year if you receive tax-exempt pay while serving in a combat zone. You can also contribute up to \$5,500 for the year to a traditional or Roth IRA (those 50 or older can contribute an additional \$1,000). Contributions to the traditional TSP or a traditional IRA lower your taxable income now. For instance, contributing \$300 a month lowers your take-home pay by just \$225 if you're in the 25 percent tax bracket. You will pay taxes when you distribute funds in retirement. Contributions to a Roth TSP account or Roth IRA are made with after-tax funds now, but the earnings can be distributed tax-free after age 59, as long as you've held those funds in the Roth for at least five years. There are several exceptions to the age 59 rule. See [IRS Pub 590](#) for details.

For more information on how to save for retirement using the TSP, go to the [Fund Your TSP Action Plan](#). For more savings options, go to the [Check Your Options to Save for Retirement Action Plan](#).

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