HOW MUCH MONEY WILL I NEED TO RETIRE?

Many financial experts estimate that it will take between 70% and 80% of your final employment earnings to support a comparable lifestyle after your retirement. However, depending upon the lifestyle that you choose, you may need a larger or smaller percentage of your final earnings to support yourself in your retirement years.

For most people, certain expenses will decline after retirement. Mortgages may be paid. The cost of commuting to work and the cost of business clothes will disappear. Children will be grown and out of the household. Taxes are usually less, and there is no longer the need to put a portion of your earnings into a retirement plan. In addition, senior citizen discounts can reduce the cost of travel, entertainment and even banking fees.

However, health care expenses tend to rise with age. If you retire before age 65 you'll need to purchase medical insurance until Medicare begins. Even after that, co-payments can become a burden if you are on a limited income. If you have an aged parent or an adult child in financial need, that can also add to your expenses.

In truth, there is no easy formula to determine the income that you will need in your retirement years or the nest egg that it will take to provide it. Therefore, it is important for you to cost out your retirement plans. Take a long hard look at your current expenses and project how they will change during your retirement. Think about the lifestyle that you hope to maintain in your retirement years.

You should also keep in mind that inflation will erode the purchasing power of your savings. While no one can predict your future expenses, it is worth your time to make your best estimate. That way you will know whether you are on track to the kind of retirement that you are looking forward to. An idea of the income that you will need is the necessary starting point in the calculation of how much you need to save now. There are several resources to help with the process. Computer software such as Intuit's Quicken and Microsoft Money can help. You can also find helpful retirement calculators on the Internet. Just type in "Retirement Calculator" on your preferred search engine such as, www.google.com or www.yahoo.com. There have also been print versions of calculators available in personal finance magazines and in books. Many of these are available in your local library.

Essentially, all of these calculators will work from your anticipated retirement needs. They will ask how much income you expect from Social Security and any pensions for which you may be eligible. You can calculate you Social Security benefits at the Social Security web site which is www.ssa.gov/planners/calculaltors.htm. Your Human Resource Office at your present employer and any former employers can provide you with an estimate of the pension benefits that you will receive based on the date that you expect to retire.

By factoring in this income, the time remaining until retirement, the expected length of your retirement, and your current savings, the calculators will tell you how much you need to save now. Because the various retirement calculators use different assumptions, it is advisable to use more than one and compare the results.

If your calculation shows that your are already saving enough, your mind can rest easy. However, if there is a shortfall, you should not panic. If the shortfall is moderate, or where you have plenty of time until retirement you can make up the shortfall in either of two ways:

1. You can increase your retirement plan contributions. If you are maxed out on your 401K at work, consider opening a Roth IRA, which allows for tax free withdrawals in retirement.
2. You can invest in higher returns by increasing the percentage of stocks in your investment portfolio. While stocks do carry more risks than bonds or money market funds, in the long run they produce significantly higher returns.

You may also choose to work a few more years to increase your savings, pension and social security benefit. You may decide to sell your present home and move to a less expensive one, and invest the excess equity.

Finally, you may choose to work during retirement. You may well find a job, part-time or full-time, that you like better than the one that you retired from; perhaps something that you have always been interested in or something with less stress and pressure. In any event, it is important that as you approach retirement you determine your current status and set a course for your retirement years.