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How much do you really need to save for retirement?

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Use these insights from Merrill Lynch strategists to help determine if your retirement plan is on the right track.

Key points

- To quickly see if your investment strategy is on track, try comparing what you've invested so far with the "best savers and investors" for your age and salary range.
- However, the amount you need to save for retirement is unique to your situation. What may be right for you will depend on your retirement expenses and the income you expect to help cover them.
- For a more in-depth view, use the Merrill Edge® Personal Retirement Calculator to check your progress vs. your goal, find out if there's a gap and see how changes you make now can help you close it.

Retirement experts have offered plenty rules of thumb about how much you need to save: somewhere near $1 million, 80-90% of your annual pre-retirement income, 12 times your pre-retirement salary.

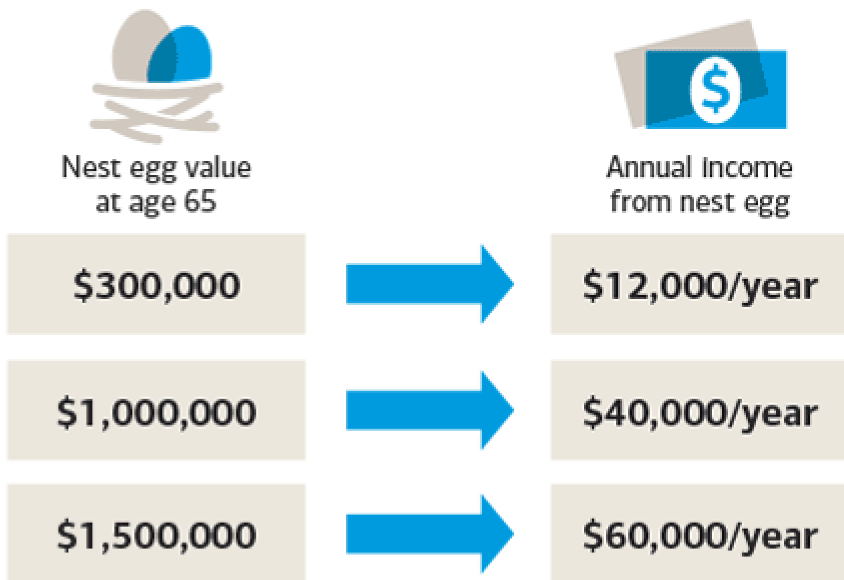
But what's right for you? And how do you know you're on track?

"Because there are so many variables, even the retirement researchers can't agree on a total dollar amount," says Ben Storey, director, Retirement & Personal Wealth Solutions, Merrill Lynch. "What each person needs will vary widely based on a number of factors."

Some people also may be surprised by how their seemingly large nest egg translates into annual income, as the following chart shows.

Will your nest egg be enough for the retirement income you'll need?

You may be surprised how much — or how little — even a generously sized nest egg could potentially provide over the course of a retirement. The examples below illustrate how much a 65-year-old can safely withdraw in the first year of retirement, assuming this amount will grow each subsequent year with inflation.



* The accumulated investment nest egg by age 65 could provide an annual retirement income, adjusted for future inflation (in today's dollars), of this amount for life if withdrawn at a sustained spending rate of 4%.

Source: BofA Merrill Lynch, August 2017. Illustration is for hypothetical purposes only.

Just how big your nest egg should be and how long it might last will depend not only on what you save and invest, but also on how you spend it once you do retire. That's why taking a look at your personal version of retirement and what it might cost can give you a more realistic picture of what you'll need. Here are some of the factors to consider as you determine what your unique savings goal should be.

Base your retirement savings estimate on what you expect to spend

"Having a percentage or dollar amount to give you a rough idea for planning can be helpful, but you can't be focused solely on that," says Bill Hunter, director, personal retirement strategy and solutions, Bank of America Merrill Lynch. "Everybody's lifestyle is different. What they want to do in their retirement years may be very different as well."

Rather than rely on a general figure, Hunter and his colleagues suggest trying to create a ballpark annual estimate based on what you live on now and what might change when you retire.

The chart below from the Employee Benefit Research Institute (EBRI)Footnote[1] can give you a rough idea of how your expenses for housing,Footnote[2] food, health, transportation, clothing and entertainment may change during retirement to help you decide how much income you might need. If you plan to travel or entertain more — or pursue an expensive hobby — you'll want to think about adding in something for those more flexible, discretionary expenses too.

How will you spend your retirement dollars?

Here's how older Americans today spend their money.

	Ages 50-64	Ages 65-74	Ages 75-84	Ages 85+
Housing	47%	43%	42%	44%
Food	12%	13%	13%	11%
Health	8%	11%	13%	19%
Transportation	16%	14%	11%	7%
Clothing	3%	3%	3%	5%
Entertainment	9%	9%	9%	6%
Other	5%	7%	8%	8%

Source: Based on estimates from Consumption Activities and Mail Survey (CAMS) in *Employee Benefit Research Institute (EBRI) Notes*, September 2014.

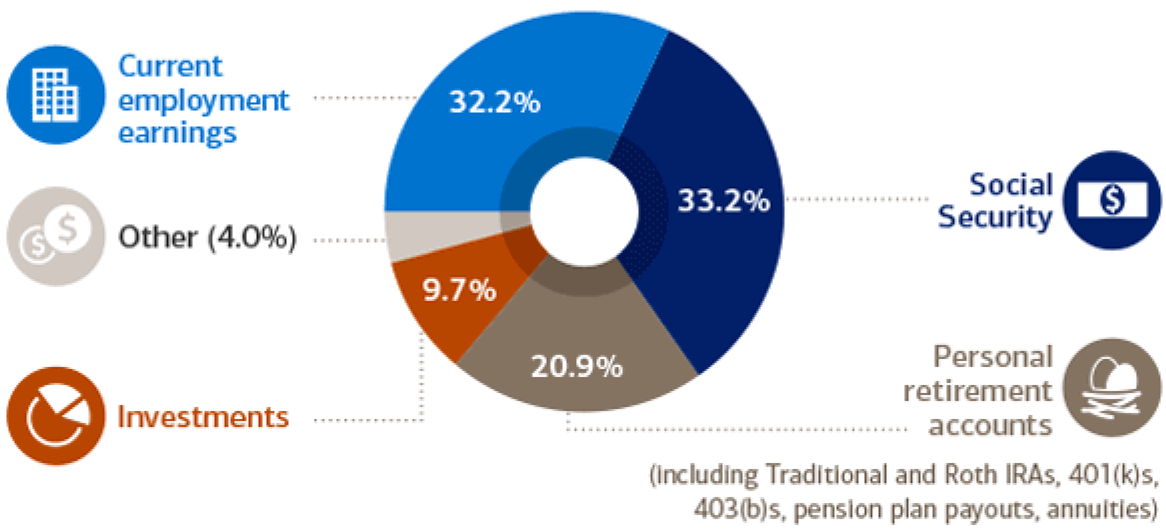
Remember, although some costs — such as health care — may increase in retirement, there may be savings elsewhere. "Researchers have found that once people retire they spend more time shopping carefully and preparing meals at home, for example. Their cost of living for items such as these goes down," says Storey.

Keep in mind all of the income sources you'll have to help cover your expenses

As you explore how much money you might really need in retirement, remember that the amount you decide to save and invest on your own is only one component of your future retirement income.

Sources of income for households aged 65 or older

Their income comes from multiple sources, including Social Security, workplace savings and money from part-time work.



Source: Social Security Administration, Income of the Aged Chartbook, 2014 (latest data available)

Working in retirement: expectations vs. reality

If you're planning to work in retirement so you can save less today, be realistic about your expectations. The annual *Retirement Confidence Survey*from the Employee Benefit Research Institute (EBRI)* has consistently found that American workers are far more likely to expect to work in retirement than actually end up doing so.

In EBRI's latest report, 79% of respondents planned to work in retirement, compared with just 28% of retirees who say they actually do work for pay today.

* Employee Benefit Research Institute 2017 Retirement Confidence Survey: *Worker Confidence Stable, Retiree Confidence Continues to Increase*, March 2017

Most Americans will have Social Security as the backbone of their retirement savings. (Even if benefit payments are reduced in the future, Social Security is not likely to go away.) And don't forget about other sources of income that may be available to you many years from now, including the money in your workplace and personal retirement accounts, pensions, annuities, proceeds from selling your home or business, rental income or an inheritance.

As the chart (above) shows, more retirees today are also increasing their income by working part-time or consulting, making earnings the second major source of retirement income today. "Many [retirees] come back into the workforce in some capacity," Hunter says. "It might be part-time work, full-time work or starting their own business."

Two ways to check on your progress right now

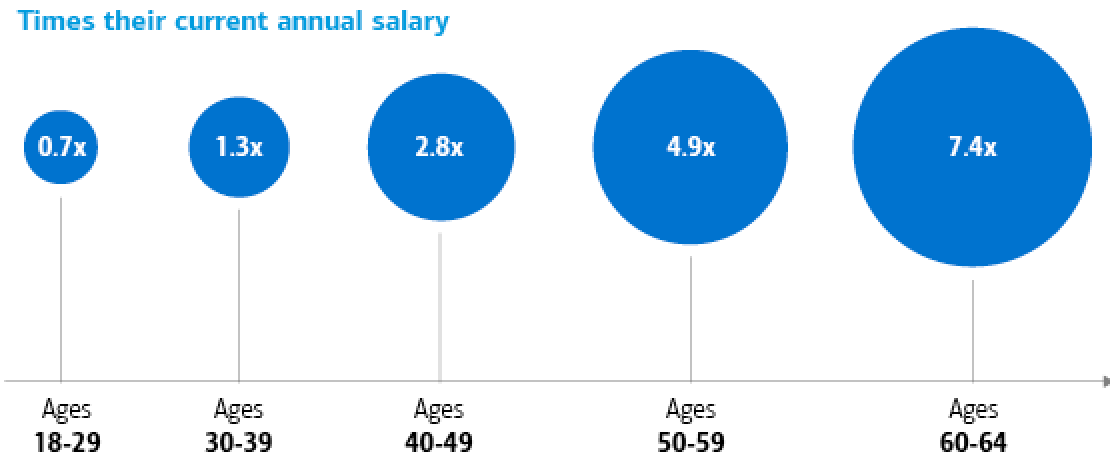
Understanding your post-retirement expenses and income can help you estimate how much you may need to draw from your personal savings each year in retirement. However, it can be tough to turn that goal into a realistic amount to invest today and to know if you're on track when your goal is decades away. Here are two ways you can check on your progress to see if any changes should be made.

1. For a quick check of how you're doing today vs. similar savers:

Just as it can be helpful to see how your heart rate, blood pressure or weight compare to the "norm" when you get your annual physical, you can now assess how your retirement savings stack up against your peers by using the Net Wealth to Income Ratio developed by Merrill Lynch.

How much the “best retirement savers and investors” have set aside

Using the Net Wealth to Income Ratio, Merrill Lynch strategists have found that the “best retirement savers” — those whose savings are greater than 90% of people in their age and salary range — have saved a total of:



Note: Calculations based on the Federal Reserve's latest triennial Survey of Consumer Finances (2016). Note: Net wealth does not include housing wealth or housing debt. Net wealth equals Financial Assets (FIN) less debt (DEBT) add mortgage debt (NH_MORT) Definition: Financial assets: (FIN) Consists of liquid assets, certificates of deposit, directly held pooled investment funds, stocks, bonds, quasi-liquid assets, savings bonds, whole life insurance, other managed assets, and other financial assets. See the definition of each asset for further details. Debt (DEBT): Includes principal residence debt (mortgages and HELOCs), other lines of credit, debt for other residential property, credit card debt, installment loans and other debt. Mortgage Debt (NH_MORT): Includes all mortgages and home equity loans secured by the primary residence. Income (INCOME): Household income for previous calendar year. Includes wages, self-employment and business income, taxable and tax-exempt interest, dividends, realized capital gains, food stamps and other support programs provided by the government, pension income and withdrawals from retirement accounts. Does not take into account taxes. Social Security income, alimony and other support payments, and miscellaneous sources of income. Source: Global Wealth & Investment Management Chief Investment Office.

For example, if 39-year-old Jane, who earns $70,000 a year, wants to see how her savings measure up to the best savers in her age group, she would just multiply her current salary by 1.4 and compare that to her current savings. Thus, to keep up with the "best savers and investors" in her peer salary group, she would need to have saved $98,000 ($70,000 x 1.4) so far.Footnote[3]

2. To see where you are and what you can change to stay on track for the future:

The Merrill Edge® Personal Retirement Calculator lets you view a projection of your savings to see if there is a gap between what you'll have and what you'll need when you finally retire and helps you adjust your strategy accordingly. With the calculator you can create different scenarios based on the information you enter, including:

- Your savings goal
- The amount you've saved so far
- Your retirement date
- Your investment choices

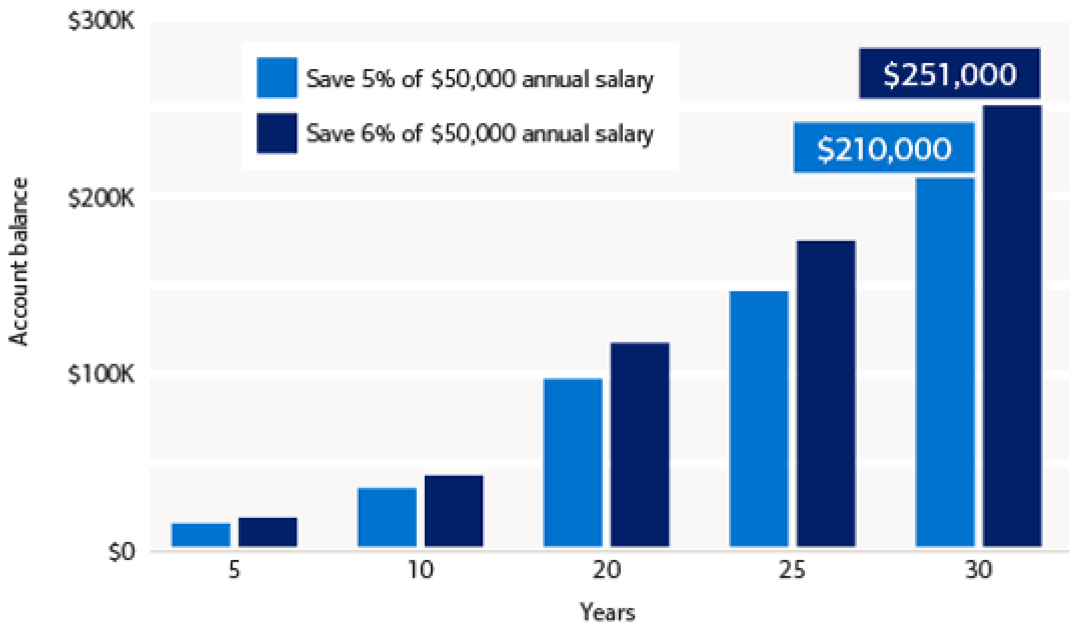
You can see how potential adjustments to any of these factors can affect the size of your retirement savings in the future.

If you are a Merrill Edge client, the Retirement Evaluator (login required) allows you to quickly import all of your Merrill Edge investment information to test similar scenarios.

But even if these checkpoints show you're behind where you might be, don't get discouraged by the big numbers you may see, advises Storey.

The difference 1% can make

A small change in savings could give you substantially more after 30 years.



Source: BofA, Merrill Lynch, April 2017. This example is hypothetical and does not represent the performance of a particular investment. This example assumes annual returns net of fees and expenses. Your results will vary. Actual investing includes fees and other expenses that may result in lower returns than this hypothetical example.

Whatever you save and invest today for the long term can make a big difference in the future. "If you need to save more, even a 1% increase can mean a lot over time," he says.

Next steps

- Get insights on what percentage of your salary you should contribute to your 401(k)
- View the 10 tips to help you boost your retirement savings — whatever your age

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Footnote[1] Based on estimates from Consumption Activities and Mail Survey (CAMS) in Employee Benefit Research Institute Notes, September 2014.

Footnote[2] Note: Housing costs include: mortgage or rent payments, property insurance, property taxes, utilities and maintenance. They typically go down in retirement because mortgages are paid off, property taxes are less due to downsizing and utility bills are lower with fewer people in the household.

Footnote[3] This number refers to financial assets minus personal (non-mortgage) debt. "Best savers and investors" refers to those whose Net Wealth to Income Ratio is in the top quintile.

Investing involves risk. There is always the potential of losing money when you invest in securities.

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