One of the most common questions I hear from my clients is: "How much do I need to retire?"

The earlier a person asks that question, the better—because if retirement is relatively far away, you have more runway to save for it. But distribution planning is just as important for older clients too, because they'll want to make sure they don't outlive the savings they've got.

I always explain to clients that setting yourself up for a secure retirement isn't really complicated. It boils down to math. I use a straightforward process to determine what size nest egg a person or couple need, and what they have to do to get there. Here's my process:

1. **Determine retirement income needs.** To figure out how much monthly income a person or couple will need in retirement, I start with their current living expenses, then deduct any expenses that they'll no longer be paying once they retire. Often, couples plan to pay off their mortgage before retirement, which will ease the financial pressure during that period.

2. **Determine a retirement date.** Knowing when a person will retire tells me how much time a client has to save the amount they need.
3. **Calculate inflation.** At its historical rate of 3.5%, inflation doubles roughly every 20 years. So if you'll need $60,000 a year in retirement income, but you don't plan to retire for 20 years, you will actually need $120,000 a year in those future dollars.

4. **Deduct Social Security.** The Social Security system may look wobbly, but especially if you're 50 or older right now, it's more likely than not going to be there for you in some form. Let's suppose that your Social Security benefit, along with a small pension, will provide you and your spouse with $40,000 a year. That brings us to $80,000 of income you still need to find.

5. **Determine a withdrawal rate.** Once you retire, you'll have to pace yourself in terms of taking money from your savings. Depending on your situation, you might be able to safely withdraw 4% to 5% or so each year without depleting your savings over your retirement.

6. **Calculate the shortfall.** In our example, if your plan has you retiring in 20 years, that $80,000 you withdraw every year will have to equal 5% or less of your nest egg. So your nest egg will need to be around $1,600,000 fulfill your income needs. If your nest egg projects as less, then you will have a shortfall.
7. **Assume a market return.** You'll want to invest your money so that it keeps growing to meet your needs. Depending on your comfort level with risk, you can invest more conservatively and accept a lower return, or more aggressively for a higher return assumption. Let's assume for this example that you invest with moderate risk in the hopes of earning an 8% annual return.

8. **Target a savings rate.** Based on the gap between your current savings and your target savings, I calculate the amount you'll need to save each month. Following through on our hypothetical example, if you have $300,000 in retirement savings but you need to fund $80,000 a year in future income at retirement, you may need to save $341 each month for the next 20 years.

As you can see, the math is pretty straightforward. In some cases, individuals or couples aren't on track to meet their retirement goals in their available timeframe. In that case, they'll need to save more, by working longer, spending less or both.

This is the area where success is really up to the client; no advisor can force a client make the sacrifices necessary to put away enough savings. But the numbers don't lie: To retire with financial security, they have to add up. If you'd like to discuss retirement planning, don't hesitate to contact me.