Americans' unrealistic expectations about how much is needed for retirement

"There are no exceptions to the rule that everyone thinks they're an exception to the rule."[1]

That quote is from Banksy, the anonymous England-based graffiti artist whose works have sold for over £1 million. But anyone who's worked in customer service could probably tell you the same thing. We all, to one degree or another, tend to believe we should be exempt from some of the consequences of our actions.

Not surprisingly, this attitude that "everything is automatically going to be fine" has carried over into people's predictions about their own financial situation in retirement.

In 2018, Provision Living, a nationwide developer of senior living communities, surveyed 2,000 Americans about how they envision their retirement years.[2] While the majority of respondents (52%) said they thought about retirement four times or more per week and could predict their starting age, location, size of house, and typical daily schedule for these golden years, their ideas on how they could make it all happen financially were a little fuzzy.

When asked how much money they'd need to have an enjoyable retirement, Baby Boomers (age 54-72) thought $574,000 would be adequate, while Millennials (22-37) figured they'd need $687,000. However, the average amount all respondents expected to have saved for retirement was only $276,000.

And that $300,000 funding gap gets worse when compared to reality. *Money* reports that on average Boomers have only $152,000 saved for retirement. Gen Xers and Millennials trail with $66,000 and $23,000, respectively.[3]

How much *should* you have in your retirement account? One rule of thumb is to have the equivalent of one year of salary invested by age 30, then add an additional year of salary every five years. For example, you should have two years of salary by age 40. Using this trajectory, you would have eight times your salary saved up by age 60.[4]

At that point, with retirement in view, you'd be in a reasonably stable position to make necessary adjustments.

This is, of course, a rule of thumb and useful only as a very general gauge.

Since everything about your current working life, your target retirement age, and factors like health, family situation, and second career plans, are unique to you—it's important to consider all these factors as part of a detailed plan.

One of the best reasons to work with a trusted advisor is his or her ability to map out a customized plan to predict the actual costs and set specific investment milestones for your successful retirement. So you won't be relying on wishful thinking.

The other reason is that he or she can help you stick to your long-term plan when markets present turmoil or life presents the unexpected.

Sources:

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