Are You About to Retire Broke?

Most Americans are simply not saving enough. *GOBankingRates* released a survey this week showing that 42% of Americans will retire broke. Hopefully, that doesn't include you, but even if you have been saving, it's a good bet you could do more.

In July 2014, I explained to readers why they should boost savings.

> ### *Boost Your Savings*
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> *The strategy implication of a low-return environment is that savings must play a greater role in your investment plan. The stock and bond markets aren't going to bail you out. To secure a prosperous financial future, today's low-return environment demands that you boost your savings rate. And not just by a little, but by a lot.*
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> *Consider a hypothetical investor who we will call Joe. Joe is 50 years old and he plans to retire in 15 years. Joe has $1.2 million in retirement savings. He has an annual income of $150,000 and he thinks he can retire comfortably with $100,000 in income. Since Joe doesn't plan to retire for another 15 years, we have to adjust his $100,000 income need for future inflation. Assuming a 3% inflation rate, Joe will need to take $155,000 in income when he retires.*
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> *Using my maximum advised 4% withdrawal rate, Joe shouldn't retire until he has a $3.9 million portfolio ($155,000 is 4% of $3.9 million). Since Joe already has $1.2 million invested in a 50-50 mix of stocks and bonds, his savings goal is within reach. But only if he makes regular contributions to his portfolio. How much does he have to contribute to his portfolio to achieve his savings goal?*

A lot more than he would if he could count on a 7% return. At a 7% return, Joe would be able to put away $2,000 per month, or about 16% of his income, and easily achieve his retirement savings goal. But at a 4% return, Joe will have to save about $84,000 per year to reach his $3.9 million target in 15 years—that's more than half of his annual income.

The ugly reality of the Fed's aggressive monetary policy is that many Americans are going to have to save more and work longer in order to retire comfortably. I am not suggesting that you boost your savings rate to 50% of your annual income, but I am suggesting that you reassess your retirement savings plan in light of today's low prospective return environment.