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HERE'S HOW MUCH YOU NEED TO SAVE EACH MONTH TO EARN $50,000, $60,000 AND $70,000 PER YEAR IN INTEREST FOR RETIREMENT

Here's a look at how much you need to set aside for retirement to generate enough interest to live on.

By: Geoff Williams - September 20, 2023

If you're getting serious about saving for retirement, you're probably starting to see it as a numbers game. It's a game in which you need to put away a certain amount of money every month in order to earn a certain amount of money in interest each year.

The hope of many retirees is to live off the interest their retirement nest egg generates. So if you're trying to figure out how to win the game of retirement, here's how much you need to save each month to earn $50,000, $60,000 and $70,000 per year in interest for retirement.

Here's How Much You Need to Save Each Month to Earn $50,000

We are going to offer some specific numbers and calculations, but let's start by saying that it's impossible to give anyone one exact number because how much you should save for retirement depends on a few factors:

- When do you start saving? People start saving for retirement at different ages. In a perfect world, you would start putting money away every month for retirement when you start your first job. But some people, for a variety of reasons, don't or can't begin saving until they're 25 or 30 or older.
- What retirement accounts are you investing in? If you are just putting money in a high-yield savings account every month, it's going to take you a lifetime to save enough to earn $50,000 back in interest each year. So are you going to put your money in an individual retirement account, 401(k) or perhaps real estate? The stock market? Some investments are riskier than others but may yield more wealth. And when you retire, just having a lot of money in your accounts doesn't automatically mean you will earn the interest you want to earn. The economy can have a really bad year. It can have a really good year.
- How much will Social Security help you? You may decide that you don't really need to earn $50,000 annually in interest for retirement if your Social Security checks are fairly robust or if you think you'll have another income source, such as a pension, to pad your finances.

With all of those caveats out of the way, let's do some calculations. According to John Jones, an investment advisor representative at Heritage Financial in Newberry, Florida, "To reach an approximate fixed income from interest or dividends in retirement, you simply must divide the desired annual income from interest and dividends by the yielded distribution rate, then the account balance necessary is provided."

If that isn't clear, Jones continues: "For example, say we wanted to achieve $50,000 per year as income and an investment yield (of) 4% in fixed interest and/or dividends, then with some math we determine that the account size must be approximately $1.25 million."

That means to get $50,000 in annual interest, you need to save $1.25 million in total.

And here's where the numbers get daunting. To save that much, you'll want to start early. Let's say you start saving at age 25 and plan to retire at age 65. To have $1.25 million in your bank account in order to withdraw 4% a year – $50,000 – you'll have to put aside $2,604 every month – 480 times.

But that assumes you aren't investing the money – you're simply putting cash into a no-interest bearing account. And, of course, you aren't going to do that.

"Compound interest over time is a potential retiree's best friend," says John Graves, founder and managing partner of G&H Financial in Canton, Ohio.

"Without compound interest, the amount saved per month would be unattainable for most people. If you were trying to save $1 million from age 40 through 65, using the inflation adjusted 30-year average of the S&P 500 to set a benchmark return of 7%, a person would have to save $307.70 per week to achieve $1,011,984.60 by the end of their 65th year," he adds.

That's still a lot. To get a little over $1 million in 25 years, Graves has you stashing away over $1,200 a month for retirement. But it's a lot less than $2,600 a month, and with Graves' calculations, you'll be putting in the money for 25 years instead of 40.

One major takeaway: The more interest your retirement savings can earn during the decades that you're investing, the better off you will be.

"If an investor started saving at age 25, planned to retire at age 65 and wanted to accumulate the necessary $1.25 million previously referenced in order receive the $50,000 of interest income per year, and assumed to earn a fixed rate of return of 7.5% not adjusted for inflation, the investor would need to save roughly $5,000 per year and earn this fixed rate," Jones says.

That would mean only putting away $416 a month. But again, you'd have to start early and hope your investments earned 7.5% every year.

Why Is Withdrawing 4% From Retirement Accounts So Important?

It isn't necessarily, but financial advisors typically suggest 4% as a goal.

"If your goal is to maintain principal and avoid losses, you can use an easy rule of thumb of $40,000 in annual income for every $1 million saved when earning a 4% low risk return," Graves says. "Advisors call this the 4% rule, wherein the return is equal to the income desired, and the risk is tolerable for a long period."

Here's How Much You Need to Save Each Month to Earn $60,000

Assuming you want to withdraw 4% of your retirement assets each year, to be able to live off of $60,000 a year, you would need to have $1.5 million in retirement savings. This means you would need to put away $3,125 a month for 40 years – assuming, again, that you didn't actually invest it.

Obviously, you want to invest your retirement savings so it can grow as much as possible. And if you invest early, Graves says, you can opt for more risky investments, which means you might lose more, but you always might earn big.

"As we approach and enter retirement, our time horizon goes from decades to years, and years to months. As a result, our risk tolerance begins to decline," Graves says.

Here's How Much You Need to Save Each Month to Earn $70,000

You will need $1.75 million in retirement savings to withdraw 4% and earn $70,000 a year. If you were just saving money and not investing, you would need to save $3,645 a month.

But of course you will invest – so you don't have to put that much money away each month.

Kristopher Whipple, a partner and financial advisor at Kristopher Curtis Financial in Nashville, Tennessee, offers a few scenarios on how much you'd have to save a month to earn $70,000 a year. To make the math more simple, he is going with $1.7 million in the bank.

- How much to save each month to earn $70,000 a year if you start at age 20. It's a lot of money a month for a 20-year-old: "If you start to invest for your future early at 20 years old, to have $1.7 million at the age of 65 with a 5% annual return, you will need to save $875 per month for 45 years," Whipple says.
- How much to save each month to earn $70,000 a year if you start at age 30. Starting to save for retirement at age 30 is relatively young – but you're going to wish that you had started saving in your early 20s. "At 30 years old, you would need to save $1,500 a month to have $1.7 million at 65 years old," Whipple says.
- How much to save each month to earn $70,000 a year if you start at age 40. As you can imagine, the numbers are not pleasant. "If you're starting later in your career to save, at age 40 years old, you would need to save $2,916 per month for 25 years. That's with the same 5% rate of return, so you can see the power of compound interest and starting early," Whipple says.

The numbers are intimidating, but as noted, there are so many factors that go into whether someone will have enough saved for retirement. If you retire at age 70, your Social Security check will be far more than if you begin collecting benefits at age 62. If you have a pension or an inheritance, that may offset some of what you'll need. Win or lose, playing the retirement game is expensive.

John Graves, founder of G&H Financial Group, specializes in retirement planning and working with clients pre- and post-retirement who desire to preserve their money for when they need it most. John prides himself on building and maintaining long-lasting relationships with clients and their families.

To contact John, call (330)-915-8030 or visit GandHFG.com.