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‘The new rule of thumb is $3 million’: Retirement planners have some sobering advice about how much you’ll need to save

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For decades, many savers have had a big, round goal in their heads for their retirement future: A million bucks.

It does have a nice ring to it. Presumably, if you reach millionaire status, your golden years should be very comfortable indeed.

“It’s an easy frame of reference for people,” says Dr. Wade Pfau, professor at The American College of Financial Services and co-director of the New York Life Center for Retirement Income. “A million dollars: It sounds like you’re rich.”

Well, hold on a minute.

Let’s do the math. Most financial planners suggest a retirement withdrawal rate of 3-4% annually, to ensure a gentle enough glidepath that you won’t outlive your money.

On a retirement kitty of a million dollars, that means $30-$40,000 a year. Does that really sound like a luxurious future, of clinking champagne flutes on white-sand beaches?

These days, not so much. And that means the million-dollar retirement goal, that many of us dream of, badly needs an update.

So what goal should we really be working towards, to ensure real retirement comfort—and hopefully a little extra? Back to the calculator. If $30,000 or $40,000 annually “probably isn’t going to cut it” for your retirement dreams, says Pfau, what will? Does the idea of $60,000-$80,000 a year lower your blood pressure a little?

In that case, using the 3-4% annual withdrawal rate, you are staring down the barrel of another figure: Two million.

“The $1-million rule hasn’t been adjusted for inflation, and hasn’t been corrected for steep reduction yields from interest-bearing vehicles like bonds,” says Ian Weinberg, a financial planner with Family Wealth & Pension Management in Woodbury, N.Y. “Today people probably need to readjust their thinking. A more realistic figure is two million and above.”

Easier said than done, of course. While the 1% have been enjoying huge wealth gains, especially after stock-market records and the Trump administration’s tax reform, the vast majority of others have been struggling with stagnant wage growth for years, and seen their total share of wealth decline.

The current number of U.S. households with a net worth over $1 million is 11.8 million, according to a report by research firm Spectrem Group. That's about 3% of the U.S. population.

If at all possible, setting a higher retirement goal for yourself makes eminent sense for multiple reasons. One is medical: A 65-year-old couple retiring in 2019 can expect to pay a whopping $285,000 in healthcare costs throughout retirement, over and above what insurance covers, according to Fidelity Investments.

Another is inflation. Although we have been blessed with relatively low increases in recent years, "even low inflation can build up over a long retirement," says Pfau. "Even at 3%, which is the long-term historical average, the cost of living doubles in 23 years." So if every $5 gallon of milk is going to cost $10 by the time retirement rolls around—well, that changes your calculations.

Everyone's number is different

To be sure, there is no blanket answer for retirement goals, since everyone's financial circumstances are wildly different. If you reside in a lower-cost location, have a modest cost of living, and live in a paid-off house, for instance, then your needs will be lower, especially with Social Security helping out.

On the other hand, for those in higher-cost locations with bigger dreams for retirement, like frequent travel, even $2 million may not be enough. "The new rule of thumb is $3 million," says financial planner Thomas Balcom of Lauderdale-by-the-Sea, Fla. "Many are looking to hit the $4-5 million mark these days," says advisor Nate Wenner of Edina. Minn.

Oof.

That's the bad news. But there is some good news. If you still have some career runway, there are a few things you can do to help get there, says Pfau.

Take full advantage of your employer's 401(k) match, if you have one. If you have been operating at a 10% savings rate, try for 15%. Consider taking on more equity risk in your portfolio, if you have enough time to weather any market corrections, since bonds and cash are yielding almost nothing.

On the expense side, cutting back now can pay dividends in the future. Since most Americans' wealth is locked in their homes, downsizing and/or moving to a lower-cost location once the kids have left the nest—for instance, to a state without income taxes—may be worth considering.

The harsh reality, of course, is that for most people a million-dollar retirement is unattainable. But even so, taking action on both spending and saving to get as close to that number as you can is a smart move.

Sighs financial planner Elizabeth Miller of Summit, N.J.: "A million dollars isn't what it used to be."

This material was prepared for Ian Weinberg's use.

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