

Use your age, assets to guide savings rate



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The Baltimore Sun

How much in savings and investments should you have by age 35 or 45? Or, for that matter, at 65 when you're likely to be near retirement?

If you don't know, you have plenty of company. So many figures are bounced about that it's often difficult for people to know what's the right amount. Many workers end up saving what they can and hoping for the best.

That's why some financial advisers now use a simple yardstick to help clients quickly see how they measure up. It suggests the amount of savings and investments you should have in relation to income at different ages.

For example, at 35 your assets should at least equal your annual income. The formula is by no means gospel, but it's a useful tool to check if you're largely on target, need to save more or should revise your retirement plans.

The idea comes from Charlie Farrell, a Denver investment adviser and author of the book "Your Money Ratios: 8 Simple Tools for Financial Security."

Farrell says financial ratios are used to simplify complicated data for investment professionals analyzing companies. He figured workers could use a similar shortcut for personal finance.

Mari Adam, a financial planner in Boca Raton, Fla., says she uses ratios based on Farrell's book with clients.

"I like it because it is very simple," she says. "When you do retirement planning, it's so complicated, people just don't get it."

The math is easy. Add up all your bank accounts, 401(k)s, individual retirement accounts and other investments. Don't include the equity in your house. That's because, Adam says, "most people still need some place to live and don't take steps to downsize and sell the house."

Younger workers in their mid-20s aren't likely to have a lot of assets built up. What's key for this age group is to get started with saving and investing. Contribute at least enough in a 401(k) to get the employer match if you can't afford to do more now, Adam says. But — and this is crucial — don't forget to increase the contributions 1 to 2 percentage points annually to catch up.

For all other age groups, Adam uses the ratios listed below. Other advisers, she notes, use even more stringent savings targets. Still, if you're not a good saver now, these benchmarks will appear steep:

- ▶ Assets at age 35 should equal one to two times yearly gross income.
- ▶ Assets at 45 should total three to four times income.
- ▶ Assets at 55 should be six to eight times income.
- ▶ And at 65, assets should equal 10 to 12 times income.

"These are aspiration levels," Adam says. And if you can't meet them, she says, it doesn't mean you can't retire.

You might be able to get along with having fewer assets if there are other financial factors in your favor. For example, Adam says, you could get by on less if your mortgage is paid off or if you will receive a fat pension or ample Social Security check in retirement. Or, she adds, if you are truly frugal.

But if you're short on savings, you still have time to make changes to improve your finances.

You can squirrel away more, work longer or take a part-time job in retirement. Or delay Social Security benefits until as late as age 70, so you'll get a bigger check. And you can always free up home equity by selling a pricey house and moving to a more modest place.

The benchmarks Adam uses aren't that far off from what T. Rowe Price recommends, said Stuart Ritter, a financial planner with the Baltimore-based investment company.

Price, though, offers another way for workers to look at retirement savings. It calculates how much you should be saving at different ages based on how much you have already put away.

For example, if you're 35 and have assets worth twice the amount of your annual income, then you need to save 12 percent a year to stay on target, Price calculates. But if you're 55 and have saved only three times your income, you will need to squirrel away 32 percent of pay annually.

Ideally, all of us would begin our careers saving 15 percent of gross pay annually, Ritter said. If your employer provides a 401(k) match — say, 3 percent of pay — then you can save 12 percent.

At this savings rate and with the money invested in a diversified, age-appropriate portfolio, you should be able to maintain your lifestyle in retirement, Ritter says.

But many of us don't start out putting away 15 percent of pay. And some workers begin contributing only the minimum to a 401(k) to get the employer match and then stop there.

It's sort of like the doctor advising you to exercise 30 minutes a day, Ritter says, but you work out only six minutes. "If six minutes at the gym sounds ludicrous, you should have the same reaction to saving only 3 percent for retirement," he said.

Sometimes workers wait until they've been in the labor force for a decade or more before they start saving. And the longer they delay, the more they must put aside.

Start saving at age 35, for example, and you will need to put away 20 percent of pay each year, Price calculates. But begin at 45, and you must salt away 29 percent of income annually to get on track. Start at 55, and a whopping 43 percent of pay must be set aside for retirement each year.

For some, any of these savings targets will be overwhelming, given the amount of debt they shoulder. But there's a guideline on debt, too.

Farrell, the Denver adviser, said debt — including a mortgage — should never exceed twice your annual income. "If debt is higher than two times your pay, it's very hard to have extra income to save," he said.

And by age 65, he added, you should be debt-free. That way, if the financial markets plunge, you aren't forced to sell investments at a loss to pay the mortgage.

Of course, people living in areas of the country where housing is expensive might balk at Farrell's guidelines. But Farrell said that if high house payments prevent you from saving enough for retirement, you need to plan how you will make up the shortfall later — including selling the house.

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StocksRecap

	NYSE	NASD		HIGH	LOW	CLOSE	CHG.	%CHG.	WK MO QTR	YTD	
DOW				12841.95	12695.16	12734.63	-22.33	-0.17%	▲▲▲	+4.23%	
DOW Trans.				5359.00	5284.29	5302.85	+20.85	+0.39%	▲▲▲	+5.64%	
DOW Util.				456.06	452.32	454.04	+0.55	+0.12%	▲▲▼	-2.29%	
NYSE Comp.				7929.76	7822.73	7883.90	-30.91	-0.39%	▲▲▲	+5.44%	
NASDAQ				2834.30	2794.78	2805.28	-13.03	-0.46%	▲▲▲	+7.68%	
S&P 500				1333.47	1313.60	1318.43	-7.63	-0.58%	▲▲▲	+4.84%	
S&P 400				949.60	933.75	937.52	-6.47	-0.69%	▲▲▲	+6.64%	
Wilshire 2000				14049.95	13841.78	13891.43	-76.64	-0.55%	▲▲▲	+5.32%	
New Lows				6	12	789.78	792.91	-2.73	-0.34%	▲▲▲	+7.02%

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NAME	TKR	LAST	CHG	%CHG	YTD VOLUME (00s)	PE	DIV	NAME	TKR	LAST	CHG	%CHG	YTD VOLUME (00s)	PE	DIV
AT&T Inc	T	29.45	-0.76	-2.6	545,453	45	1.76f	IBM	IBM	190.98	-0.75	-0.39	39,791	15	3.00
Abbott Labs	ABT	54.87	-0.36	-2.4	72,343	16	1.92	JPMorgan Chase & Co	JPM	37.49	-1.1	-2.8	325,491	8	1.00
Adobe Systems	ADBE	31.18	-0.16	+0.3	41,524	19	...	Johnson & Johnson	JNJ	65.70	+0.48	+2	124,551	19	2.28
Alcatel-Lucent	ALU	1.84	+0.03	+1.7	107,348	Kellogg Co	K	49.99	-0.92	-1.1	31,139	15	1.72
Alcoa Inc	AA	10.36	-1.2	+19.8	268,014	15	1.12	Kimberly Clark	KMB	71.98	+1.1	+2.1	25,073	18	2.80
Alliant Energy	LNT	43.22	+0.18	-2.0	5,961	15	1.80f	Kinder Morgan Energy	KMP	88.01	-1.87	-3.3	16,030	...	4.64
Altera Corp	ALTR	40.38	+1.9	+8.8	48,341	17	3.2	Kraft Foods	KFT	38.60	+0.23	+3.3	64,609	21	1.16
Altria Group	MO	28.66	-0.1	-3.3	115,580	17	1.64	Level 3 Commun	LVT	19.57	-2.4	+15.2	18,754	dd	...
Ameren Corp	AEE	31.92	...	-3.7	20,314	14	1.60f	Lindsay Corp	LNN	61.09	-1.89	+11.3	1,102	22	3.36
Am Fst Tx Ex Inv	ATAX	5.23	+0.03	+5.9	475	Macy's Inc	M	33.27	-0.92	+3.4	131,180	12	8.0f
Amer Elec Power	AEP	41.28	-1.0	-1	109,355	11	1.88	Martha Stewart Liv	MSO	4.21	-0.4	-4.3	1,161	dd	2.56
Ameristar Casinos	ASCA	19.82	+1.2	+14.6	1,320	14	4.2	McDonalds Corp	MCD	99.18	-0.5	-1.1	45,058	19	2.80f
Anadarko Petrol	APC	79.31	-1.77	+3.9	37,941	dd	3.6	Merck & Co	MRK	38.78	+1.0	+2.9	123,128	14	1.68f
Aon Corp	AON	47.85	+1.5	+1.8	26,820	17	6.1	MetLife Inc	MET	34.50	-1.45	+10.6	273,073	9	7.4f
Apache Corp	APA	97.91	-1.92	+8.1	30,906	10	6.0	Microsoft Corp	MSFT	29.50	-0.06	+13.6	485,738	11	8.0
Apple Inc	AAPL	444.63	-2.03	+9.8	112,947	13	...	Monsanto Co	MON	81.15	-1.7	+15.8	29,198	26	1.20
Applied Matis	AMAT	12.40	+0.4	+15.8	146,599	9	3.2	Mosaic Co	MOS	55.37	-0.65	+9.8	48,136	11	...
Aqua America Inc	WTR	22.08	+2.8	+1	3,755	23	6.6	NCR Corp	NCR	17.96	-0.03	+9.1	10,166	12	...
Arch Dan Mid	ADM	29.84	-2.4	+4.3	33,652	9	7.0f	Nelnet Inc	NWI	24.74	+0.2	+1.1	423	5	4.0
BP PLC	BP	44.77	-1.3	+4.7	64,999	7	1.68	News Corp B	NNI	19.50	+0.2	+7.3	33,492	17	1.9f
Ballantyne Strong	BTN	4.49	...	+9.8	900	6	...	Nucor Corp	NOE	44.13	+3.9	+11.5	29,700	22	1.46f
Bank of America	BAC	7.30	-0.05	+31.2	573,240	dd	0.4	OGE Energy	OGE	54.06	-0.33	-4.7	7,724	16	1.57f
Becton Dickinson	BDX	79.37	+1.2	+6.2	19,024	14	1.80f	Ocid Petl	OXY	100.19	-3.27	+6.9	49,109	12	1.44f
Berkshire Hath A	BRK/A	119450	-500	+4.1	5	17	...	ONEOK Partners LP	OKS	57.59	+0.4	-3	3,599	22	2.8f
Berkshire Hath B	BRK/B	79.96	-1.9	+4.4	50,126	17	...	Oracle Corp	ORCL	28.29	-2.2	+10.3	342,681	16	2.4
Black Hill Corp	BKH	34.43	+1.1	+2.5	2,446	24	1.48f	Oshkosh Corp	OSK	24.80	-1.3	+16.0	9,992	8	...
Block H&R	HRB	16.92	+0.2	+3.6	23,941	16	8.0	Otter Tail Corp	OTTR	22.19	+1.9	+8	893	25	1.19
Boeing Co	BA	75.31	-5.1	+2.5	41,304	14	1.76f	PG&E Corp	PCG	41.26	+1.7	+1	19,743	16	1.82
Brist Myr Sqb	BMY	32.48	-2.2	-7.8	187,181	15	1.36f	PepsiCo	PEP	66.52	-1.8	+3	53,172	17	2.06
Buckeye Part	BPL	62.14	-3.9	-2.9	2,994	49	4.10f	Pfizer Inc	PFE	21.63	-0.9	...	979,826	14	88f
Buckle Inc	BKE	42.68	-6.2	+4.4	1,832	14	8.0a	Potash Corp	POT	45.81	+5.8	+11.0	177,671	14	56f
CME Group	CME	240.45	-1.66	-1.3	3,468	13	5.60	Prudential FncI Grp	PRG	27.19	-1.0	+10.5	29,777	9	7.0f
CSG Systems Int	CSGS	16.20	+2.5	+10.1	1,934	15	...	Procter & Gamble	PG	64.80	-1.8	-2.9	118,704	16	2.10
CSX Corp	CSX	22.98	+3.2	+9.1	149,689	14	4.8	Prudential FncI	PRU	55.59	-2.19	+10.9	105,371	7	1.45f
CVS Caremark Corp	CVS	42.18	...	+3.4	66,743	17	65f	Qualcomm Inc	QCOM	57.81	-1.18	+5.7	197,230	23	8.6
Cabelas Inc	CAB	26.39	-2.2	+3.8	5,029	13	...	Royal Dutch Shell A	RDSA	71.54	-3.7	-2.1	31,131	14	3.36
Caseys Gen Store	CASY	52.89	+3.5	+2.3	814	18	6.0	SAIC Inc	SAI	12.90	-0.9	+5.0	16,365	17	...
Caterpillar Inc	CAT	111.31	+2.26	+22.9	172,734	15	1.84	Schwab Corp	SCHW	11.61	-5.3	+3.1	263,229	16	2.4
CenturyLink Inc	CTL	37.15	-1.8	-1	64,478	17	2.90	Smucker Inc	SJM	79.02	-2.17	+1.1	9,898	20	1.92
Chevron Corp	CVX	106.59	-1.14	+2	68,948	8	3.24	SO	SO	45.32	+2.0	-2.1	123,609	18	1.89
Cisco Syst	CSCO	19.83	+0.1	+10.0	361,975	17	2.4	Stryker Corp	SYK	54.87	-1.9	+10.4	27,517	17	85f
Clorox Co	CLX	68.84	+2.0	+3.4	6,504	20	2.40	Suntrust Bks	STK	20.50	-1.12	+15.8	120,087	19	2.0
CocaCola	KO	68.01	-4.2	-2.8	72,221	13	1.88	Sysco Corp	SYO	30.35	-0.8	+3.5	23,658	15	1.08f
Comcast Corp A	CMCSA	26.31	+1.9	+11.0	183,328	19	4.5	TD Ameritrade Hldg	AMTD	16.37	-4.3	+4.6	48,712	14	2.4
ConAgra Foods	CAG	27.04	-1.3	+2.4	26,092	16	9.6	Target Corp	TGT	50.50	-6.4	-1.4	48,209	12	1.20
ConocoPhillips	COP	69.53	-4.5	-4.6	99,394	8	2.64	3M Company	MMM	87.58	+1.0	+7.2	47,706	15	2.20
Con Edison	ED	59.77	-4.0	-3.6	23,842	17	2.42f	Time Warner	TW	37.97	-2.4	+5.1	61,730	14	9.4
Corning Inc	GLW	12.67	-3.8	-2.4	470,887	7	3.0f	Toyota Mot	TM	74.59	+3.7	+12.8	7,555	...	1.26a
Costco Wholesale	COST	82.06	-6.6	-1.5	19,364	25	9.6	Travelers Cos	TRV	58.70	-4.5	-8	40,341	16	2.86
Covidien PLC	COV	51.29	+1.57	+14.0	71,213	14	9.0	Tyco Intl Ltd	TYC	49.27	-4.7	+5.5	30,186	15	1.00
DTE Energy Co	DTE	54.34	+2.8	-2	8,492	13	2.35	USG Corp	USG	13.29	-2.4	+3.8	23,244	dd	...
Deere Co	DE	87.86	-1.0	+13.3	49,988	13	1.64	Union Pacific Corp	UNP	113.68	+0.5	+7.3	28,242	17	2.40f
Disney	DIS	39.35	-2.1	+4.9	71,129	16	8.0f	UPS class B	UPS	75.84					