How Much Money Will You Need to Retire?

Most Americans underestimate the amount of money needed during retirement.[1]

Although most people look forward to retirement, many haven't saved enough to sustain them through it. Experts agree that people should set aside **6%** to **10%** of their salaries each year in order to live comfortably throughout their golden years. However, more than **54%** of American workers have less than $25,000 saved.[2] In fact, **72%** of Americans between the ages of 25-69 plan to work through retirement, **39%** because they can't afford not to work.[3]

Ideally, retirement savings should provide 80% of retirement income, including benefits from Social Security and pension.[2]

At-A-Glance: Traditional IRA vs. Roth IRA

	Traditional IRA	Roth IRA
Contributions	Tax deductible	Not tax deductible
Earnings	Subject to taxes	Earnings and principal are tax free in accordance with guidelines
Mandatory Distribution Age for Withdrawals	70½	None
Income Restrictions	None	Single $107,000-122,000 Married $169,000-179,000
Annual Contribution Limits	$5,000 (below 50 years of age) $6,000 (age 50 and above)	$5,000 (below 50 years of age) $6,000 (age 50 and above)
Penalties	Any funds withdrawn before 59½ subject to 10% penalty	Contributions can be withdrawn penalty-free

Source: Internal Revenue Service

There are a variety of options available that allow people to establish a retirement savings account as soon as they begin working. Traditional IRAs have been the account of choice for many; however, the Roth IRA is gaining ground, particularly with younger workers. In addition to flexibility, the Roth IRA favors younger and lower income workers who may not have access to as much disposable income.

Since contributions to a Roth IRA are comprised of after-tax funds, they are not subject to taxes when it comes time to withdraw the money. This is an important benefit: Paying the taxes initially, when you're assumed to be in a lower tax bracket and thus subject to a lower tax rate, puts you in better stead at retirement, when it's assumed that you would be in a higher tax bracket and subject to a higher tax rate. For many, this means they would pay less in taxes.

Sources: 1) CNN Money, December 8, 2010
2) CNN Money, March 9, 2010
3) Inman News, February 17, 2011