

Table 3. Sample wage replacement ratio (WRR) calculation using the bottom-up approach.

	Current budget	Retirement budget
Current Income	\$65,000	0
<i>Expenses</i>		
Income taxes*	11,000	11,000
Social Security taxes	4,875	0
Mortgage	10,800	0
Homeowner's insurance	2,760	2,760
Health insurance	540	540
Car payment	3,000	3,000
Auto insurance	780	780
Auto maintenance	1,000	700
Food	6,000	6,000
Utilities	4,200	4,200
Clothing	3,655	2,000
Gas	1,200	840
Savings	9,190	0
Entertainment	3,000	3,000
Miscellaneous	3,000	3,000
Total expenses (needs)	\$65,000	\$37,820
Wage Replacement Ratio (Total expenses/ income)*100		58.18%
*Assume that income tax liability will remain the same during retirement year; in this case, 25% tax bracket.		

Summary

While no “magic number” exists for the amount you should save for retirement, there are calculations you can use to estimate the amount you will need. Calculating your wage replacement ratio (WRR) using either the top-down or bottom-up approach can help you determine how much money you should put aside for retirement and provide you with savings goals.

For more information on retirement financial planning, see other EDIS publications at http://edis.ifas.ufl.edu/topic_retirement.

Reference

Dalton, M. 2008. *Retirement Planning and Employee Benefits for Financial Planners, fifth edition*. S. Rose, LA: Money Education.