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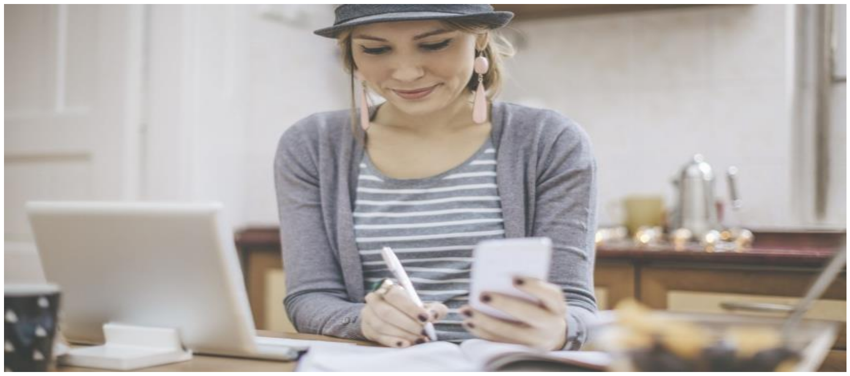
Entrepreneur

Here's How Much a Millennial Needs to Save Each Month to Retire With $5 Million

by John Rampton



For your retirement to comfortably last the decades you can expect to live, you need to start saving now.

How much will you need to retire?

Well, in 2014, Matthew Illian, a member of the Investment Committee at Marotta Wealth Management, Inc., wrote that "Someone retiring now in 2014 with $1 million at age 65 can safely withdraw $43,600 a year. However, [because of inflation], today's 20-year-olds will need over $7 million to have that same lifestyle when they retire. In 1970, they would only have needed $166,000 in retirement to have a similar purchasing power for the rest of their life."

If that's the the case, then a 25-year-old with a starting salary of $50,000 would have to save around 14.65 percent of their salary throughout their career. The problem with that scenario is that Illian determined this retirement figure if the average inflation rate over the next 45 years will be 4.5 percent. Currently, the inflation is around 1.4 percent and hasn't been close to 4.5 percent since 2008.

That still doesn't mean that millennials should only plan to retire with a million. As Robert Powell reports in USA Today "Older Millennials -- those born in the early 1980s -- will need about $1.8 million salted away to maintain their standard of living in retirement while younger millennials -- those born in the late 1990s -- will need upwards of $2.5 million."

There are several reasons why millennials need this much money set aside. For starters, they don't have a pension plan like their grandparents. Also, Social Security benefits will "be less generous than today's." Millennials are also expected to live longer than current retirees. Powell suggests that the "oldest millennials, assuming they have no money set aside today and that they earn 5 percent on their investments, will need to sock away $2,000 a month for 32 years to accumulate a $1.8 million nest egg." While "the youngest Millennials would need to save $1,000 a month for 48 years to accumulate $2.4 million."

How much do you need to save each month to retire with $5 million?

Let's say that you want to play it safe and go somewhere between the two scenarios listed above. That would come out to about $5 million for your retirement. Sound impossible? If you determine what you want your retirement to look like and set goals to achieve that reality; and, you can start by following these four steps, it's not.

1. Estimate your future spending.

If you've already created a budget and understand your current cash flow and expenses, then you're off to good start. Estimating your future spending is based on what you're currently spending each month and how much money you're spending in expenses each month. This includes everything from your mortgage, insurance, and utilities.

Keep in mind that some expenses will disappear, while new expenses will appear. For example, your mortgage will be paid-off, so that expense will no longer be a factor. You may even decide to downsize your home, so utilities and property taxes may decrease. However, you want to consider new expenses like travel and long-term care.

Deduct or add these future expenses into your monthly expenses and that should give you a ballpark estimate of how much you'll need for retirement. If you can swing this, then you can start putting more money aside for your retirement now.

Unfortunately, a lot of us don't want to do the work involved in creating an estimation of our future spending. In so, you at least to project your spending so that you know how much money you'll need to live off of.

2. Use a retirement calculator.
You also want to find a retirement calculator that will calculate your retirement needs, monthly savings goal, and estimate your retirement age. The calculator determines this information based on the information that you enter, so make sure that it's accurate.

3. Write down your retirement plan.
This doesn't have to be a formal and complex document. It can simply be a single piece of paper that put on your fridge in order to keep you focused on the retirement goals that you've established.

4. Revisit your plan.
Things can change rapidly and frequently. That's why you need to revisit your retirement plan often and make the appropriate changes, such as a new change in your lifestyle like having a child or a spike in inflation rates.

Using those steps can give you a ballpark figure on what you need to enjoy your golden years, along with a plan to keep you on-track. Once you know how much money you need to each month and how much to save, and you're able to handle that financially, you can start setting more money aside into your retirement savings to help you reach your $5 million goal.

Tips on becoming a millionaire.

Determining your future expenses and writing a retirement plan is a great starting point. But, there are a handful of other tricks that you can start doing to help you save enough money each month to become a millionaire.

Start as soon as possible.
This should be pretty obvious. The earlier you start saving the more money you'll have in your retirement savings. For example, if you initially put aside $20,000 you would need to save $1,598 indexed at 7 percent annually in order to become a millionaire by age 65. That amount, when adjusted at 3 percent inflation, would turn out to be $3,262,038 in 40 years. Imagine if you were able to put aside $2,000 annually? You'd shatter that $5 million goal.

Keep out of debt by being smart.
Avoid student loans, credit cards, and poorly managing your finances. These prohibit you from being able to save for your retirement. If you can't avoid these debts, then make sure that you pay them off as quickly as you can. This saves a ton of money in the long run since you're not paying for those interest rates.

Also, consider the costs involved with major life decisions like moving or getting married. Moving can be great but it's costly if you're constantly on the move. And, not trying to be a downer here, but rushing into a relationship that ends in divorce is another costly experience that can impact your retirement savings. I've learned from that in the past, not worth it as it killed my bank account.

Invest slowly.
Don't look for high risk/reward opportunities. Invest in a 401(k) plan if you're employed. The reason? Your employer matches a portion of your contribution. That's pretty much free money!

Have multiple streams of income.
The people who have been able to save millions of dollars have done so because they didn't just rely on one source of income. They had several sources of income, such as driving for Uber on the weekends or running an online business. This allows them to pay down their debts or contribute more into their retirement savings.

Live frugally.
A recent acquaintance of mine, Mike Molinet, was able to start and grow his startup Branch to be a 90-person company while living frugally. When he started his company, he spent the first three months sleeping on friends' couches and showering at the incubator where they were working. Eventually, he moved into his co-founder's garage in Palo Alto to save money after they started paying themselves a minimal salary. The garage isn't a converted living space but rather just a regular garage with no ceiling or insulation and with a concrete floor, water heater and washer/dryer. Even after raising $53 million dollars, he still lives in the same garage.

I'm not saying you have to live in a garage but the wealthy are actually known for living far below their means. Instead of owning 20 luxury cars they have a reliable car that gets them from Point A to Point B that they can drive for years. They also never pay full price for items, they either wait for sales or use coupons.

Again, when you're frugal you're able to invest more money for your future.

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