How Much Do You Need to Retire?

Uncertainty over the future of Social Security, longer life expectancy, and inflation all factor into how much income you'll need in retirement. Your annual retirement income requirement has the potential to be significantly higher than what you anticipate.

Figuring out exactly how much to plan for in retirement—and how much you need to save today—first requires making estimates of expenses. You may have higher expenses when you retire in some areas such as medical care, but lower expenses in others. You can estimate your "personal inflation rate" by looking at your expected living costs in retirement.

Retirement income may include pension benefits, Social Security benefits, personal savings and investments, and income from part-time work. On average, Social Security and pensions only provide a little over half of what you'll need.[1] The rest you'll have to provide yourself.

This article along with the supplemental worksheet can help you estimate what your savings and investment goals should be. Your financial advisor can help you refine this estimate and assist you in setting up a retirement fund to provide the income you'll need.

> Investing now with a long-term focus can improve your chances of filling the retirement gap.

[1] Source: Income of the Aged Chartbook, Social Security Administration, April 2016.

The Changing Landscape of Retirement

Picturing yourself as a retiree may be hard if not impossible. But if you could envision those future years, you'd probably see a life full of activity and decades of health, happiness and prosperity. No rocking chairs and lap shawls need apply.

The reality, however, is probably somewhere in between. The problem with the picture is that the pleasure and comfort of your later years depend, to an ever-increasing degree, on the actions you take today.

Changes in the American workplace have made it more important than ever to take control of your financial future. By investing now with a long-term focus, you can greatly improve your chances of having a fulfilling retirement.

Americans used to count on a pension plus Social Security to get them through those "golden years." These days, people change jobs more often, rely on dual incomes, and manage their own retirement funds through defined contribution plans, like a 401(k). By most estimates, you'll need between 60% and 100% of your final working years' income to maintain your lifestyle after retiring.[1]

The graphic to the right shows the importance of saving now toward a retirement fund. Not only are Social Security benefits a smaller proportion of your retirement wallet, but the sums are diminishing and the age at which you can begin to receive benefits is higher. You can contact Social Security at **800.772.1213** or visit www.ssa.gov to learn what you can expect in benefits, and when. Benefits are calculated on your past earnings, with certain variable factors.

Alas, the responsibility for the bulk of your nest egg rests with you. Social Security represents approximately 34% of the aggregate income of Americans aged 65 and older, according to the Social Security Administration.

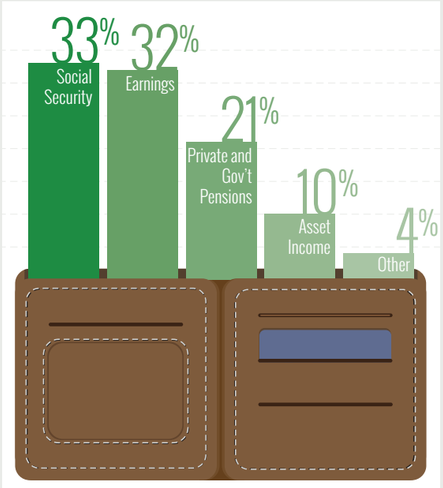
Also, as you begin thinking about how much you'll need for a comfortable retirement, you may be startled to learn the impact of inflation. At an average inflation rate of 3%, your cost of living would double every 23 years. Your annual income will need to increase each year even during retirement in order to keep up with the gradual rise in prices of everyday goods.

You'll also have to consider the likelihood of increased medical costs and health insurance as you grow older. The median nursing home cost for a private room, for instance, now runs more than $91,000 a year and could rise to over $141,000 per year by 2030, assuming an annual inflation rate of 3%.[2]

Now that you have an idea how much you'll need to finance your retirement years, of which there can easily be 25 or more, you may better understand the urgency of building your assets.

[1] Source: Better Information on Income Replacement Rates Needed to Help Workers Plan for Retirement, U.S. Government Accountability Office, March 1, 2016.
[2] Sources: Genworth 2015 Cost of Care Survey; DST Systems, Inc., 2015.

Where is your income coming from in retirement?



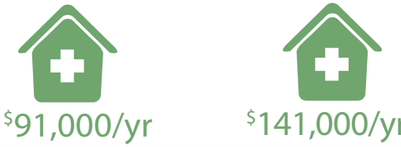
Source: Income of the Aged Chartbook, Social Security Administration, April 2016.

The power of inflation:
At an average inflation rate of 3%

The cost of living will double by 2039

2016 | 2039

The cost of a private nursing home room will increase by more than 50% by 2030



2016 | 2030

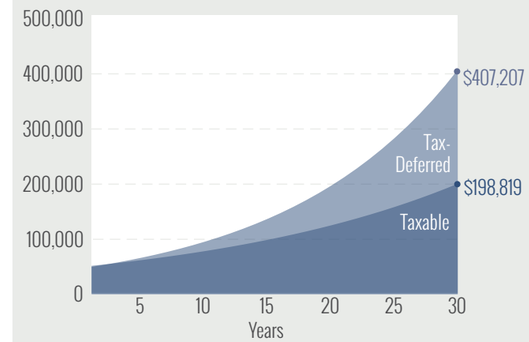
Pensions, Social Security and Other Allies

Traditional pensions (private and government) are estimated to supply about 18% of the aggregate income of today's retirees, while Social Security is estimated to supply 34%, although nearly two-thirds of retirees rely on Social Security for 50% or more of their income, according to the Social Security Administration (2014; using 2012 data, most recent available). Still, you may fall far short of your goal. A radically reduced standard of living for a quarter century or more is hardly the stuff "golden age" dreams are made of.

Fortunately, you have some allies. First is the power of compounding, which takes advantage of time. Tax deferral is another ally. Using investment vehicles such as 401(k) plans or individual retirement accounts (IRAs), you can put off paying taxes on your earnings until you are retired and potentially in a lower tax bracket. Meanwhile, your contributions may be pretax or tax deductible, helping reduce current tax bills.

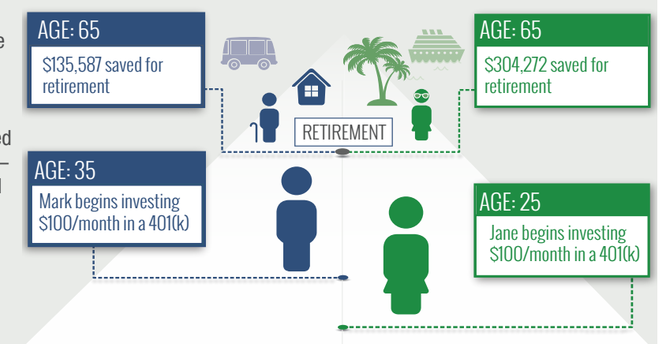
As the chart to the right illustrates, an investment of $50,000 would grow to more than $200,000 after 30 years, at an annual return of 5%, if all the returns were reinvested and the account grew tax deferred. The same $50,000 investment in a taxable account would grow at a far reduced rate. As with all hypotheticals, this example does not represent the performance of any specific investment and the earnings would be subject to taxation upon withdrawal at then-current rates and subject to penalties for early withdrawal.

Growth of $50,000[2]



Timing is everything

The more time you have until retirement, the more fortunate you may be. Delaying just months—never mind years—can significantly reduce your results. Consider this example: Jane begins investing $100 a month in her employer-sponsored 401(k) plan when she's 25. Mark does the same—beginning when he's 35. Assuming a 7.5% annual rate of return compounded monthly, when Mark retires at 65, he'll have $135,587. Jane will have $304,272. While this is a hypothetical example and there are no guarantees any investment will provide the same results, it illustrates the potentially striking advantage starting early can offer. By starting early, investing systematically, and benefiting from the potential of compounding and tax deferral, you may pack a lot more punch into your portfolio.



Investment plans need to be customized because different people have different degrees of risk they will accept as well as varying time frames they intend to hold their investments. Keep in mind that all investments involve risk, including the possible loss of principal. A tailor-made portfolio can be diversified to take these factors into account. It's a wise idea to consult a professional financial advisor for complete information.

Another advantage of today's retirement planning options is that you can control how your money is invested.

For a clearer picture of your income needs in retirement, we invite you to complete our supplemental retirement readiness worksheet.

[2] Assumes a 7.5% annual rate of return and a combined federal and state tax rate of 35%. This is a hypothetical example shown for illustrative purposes only. It does not represent the performance of any actual investment product.

About AMG Funds

AMG Funds provides access to premier asset managers through a **unique partnership** where the investment managers are truly independent.

AMG Funds is not beholden to a single investment approach or a single manager in delivering quality investment solutions. This **innovative approach** leverages each manager's specific expertise to deliver products that cover the complete asset class spectrum.

Delivering the talents of all of these portfolio managers under a consolidated platform allows AMG Funds to offer **unmatched access** to specialized investment expertise.

The tax information contained herein is provided for informational purposes only. AMG Funds does not provide legal or tax advice. Always consult an attorney or tax professional regarding your specific financial or tax situation.

Investing involves risk, including possible loss of principal. Diversification does not guarantee a profit or protect against a loss in declining markets.

AMG Distributors, Inc., a member of FINRA/SIPC.

AMG Funds LLC is a subsidiary and U.S Distribution arm of Affiliated Managers Group, Inc. (NYSE: AMG).

www.amgfunds.com

linkedin.com/company/amg-funds

©2017 AMG Funds LLC. All rights reserved.

052617 PER060