Savings Needed to Retire in the 25 Largest Cities

Abstract:

According to a Merrill Lynch survey, 81% of Americans do not know how much money they will need in retirement. In order to shed some light on this issue, SmartAsset used our retirement calculator to simulate how much the average household in the 25 largest U.S. cities would need to retire.

Findings:

- **Millionaire retirement** - We estimate that in high-cost cities like San Francisco and San Jose, California you need to have saved at least $1 million to comfortably retire. To be more specific, assuming a 2% inflation rate and a 27% dip in expenses during retirement, SmartAsset's retirement calculator estimates the annual cost of living for a retired couple in San Francisco would rise to $152,138 in 2053 (the year our modeled couple is ready to retire at age 65). Our calculator estimates that Social Security benefits would cover around $81,400 per year, while the other $71,000 would need to come from private savings accounts.

- **Affordable cities need less** - Residents in cities with lower costs of living like Detroit, Philadelphia and Memphis, Tennessee require less savings on average. We estimate that residents could retire with savings of less than $150,000 in those cities. In Philadelphia, for example, our calculator estimates that by 2053, a retiring couple will need an annual income of $56,414 to maintain their standard of living. If that household earns the median salary in Philadelphia ($41,449) for 35 years, our calculator estimates that the household would earn $48,574 per year in Social Security benefits, if they they retired and took Social Security at 65. That means savings for the median-earning household in Philadelphia would only need to cover an extra $7,800 per year. In more expensive cities, the math looks a little different. Take San Jose, California for example. Our calculator estimates that by 2053 the average retired couple would need $149,035 in annual income to have a comfortable retirement. Of that $149,035, Social Security benefits will be worth $80,696 per year, meaning savings would need to cover the other $68,339.

- **Importance of Social Security** - One factor it is important to consider is Social Security. In our model we assumed a household would earn the median income for 35 years which would mean receiving the maximum Social Security benefits. In this study, the median household in every city would be ready for retirement if they saved 10% of their income annually starting at age 30, earned a 5% return on investments, cut expenses by 27% in retirement and maxed out their Social Security benefits. If we cut Social Security benefits out of the analysis completely, none of the average households in the 25 largest cities would be ready for retirement based on the other factors above. On average we estimate the median household across our 25 cities would be short $1.56 million worth of savings if they did not have any Social Security. If we make Social Security benefits slightly less generous - by cutting out the extra benefits for spouses, for example - households in about half of our cities would be prepared for retirement without needing to increase their savings rate.

While our data shows that in some places Social Security can do most of the heavy lifting in retirement many people want to plan for the future without factoring in Social Security (in case it is no longer available or just to feel more confident that they will have enough money to last through retirement).. Below are some ways workers can increase personal savings so as to rely less on Social Security in retirement:

- **Save a higher percentage of their salary.** For this study, we assumed workers would start putting 10% of their salary toward retirement starting at age 30. However the earlier workers can start saving and the more money they can put aside in 401(k)s and individual retirement accounts, the more they will have saved for retirement. Starting earlier or increasing the percentage of income saved can have a large impact.
- **Cut costs.** Workers who are currently struggling to save more can try to cut back on their living expenses. For example, if they are living in an area with a high cost of living, it may make financial sense to move to a place where the costs of living are lower. The money saved from reducing living costs can then be invested into retirement savings accounts.
- **Downsize in retirement.** In this model, we estimated that retirees will spend 27% less in retirement than while they were working. However it's possible to lower this percentage even more so savings will go further. One option, especially for those tied to the area they are in, is to downsize on housing. Larger homes come with more costs including property taxes and general upkeep so moving from a larger home to a more modest house or an apartment can help to lower retirement expenses.

Methodology and Sources:

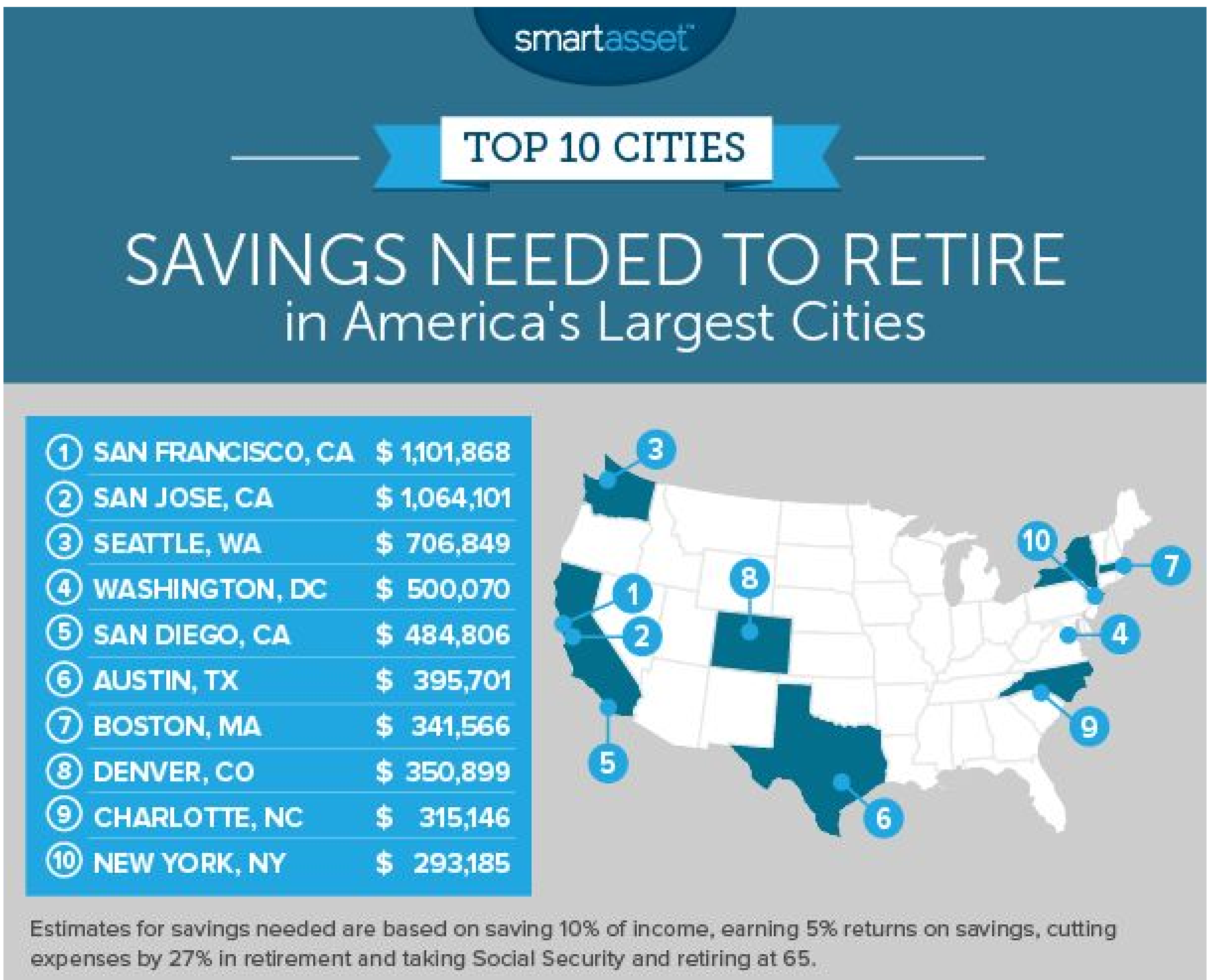
In order to complete this analysis, SmartAsset simulated a retirement situation for the average household in the 25 largest cities using our retirement calculator. In order to run our analysis we made the following assumptions:

- Households are married, earn the median household income for that city and begin saving 10% of their income starting at age 30 with no previous savings.
- Households would spend 27% less in retirement than they did before retirement. We estimated this figure by finding the percent difference in spending between over-65 households and under-65 households according to the Bureau of Labor Statistics Consumer Expenditure Survey.
- Households would invest all their savings with an average return of 5%.

- Households would take Social Security at 65, retire at 65 and need savings to last them until age 95.
- There would be a general inflation rate of 2%.

Based on these assumptions our retirement calculator estimated the total savings needed to retire. We then ranked the cities from the highest amount needed to the lowest.

Data on median household incomes comes from the Census Bureau's 2016 1-year American Community Survey.



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SAVINGS NEEDED TO RETIRE
in America's Largest Cities

Rank	City	Median Household Income	Estimated Savings Needed For Retirement	
			Without Social Security Benefits	With Full Social Security Benefits
1	San Francisco, CA	$ 103,801	$ 2,825,916	$ 1,101,868
2	San Jose, CA	$ 101,940	$ 2,772,481	$ 1,064,101
3	Seattle, WA	$ 83,476	$ 2,228,332	$ 706,849
4	Washington, DC	$ 75,506	$ 2,053,550	$ 500,070
5	San Diego, CA	$ 71,481	$ 1,909,106	$ 484,806
6	Austin, TX	$ 66,697	$ 1,764,111	$ 395,701
7	Boston, MA	$ 63,621	$ 1,719,935	$ 341,566
8	Denver, CO	$ 61,105	$ 1,662,299	$ 350,899
9	Charlotte, NC	$ 61,017	$ 1,633,781	$ 315,146
10	New York, NY	$ 58,856	$ 1,579,918	$ 293,185
11	Fort Worth, TX	$ 56,428	$ 1,482,913	$ 268,435
12	Nashville, TN	$ 54,310	$ 1,482,246	$ 254,669
13	Los Angeles, CA	$ 54,432	$ 1,436,007	$ 248,212
14	Chicago, IL	$ 53,006	$ 1,427,925	$ 234,505
15	Phoenix, AZ	$ 52,062	$ 1,373,483	$ 224,314
16	Jacksonville, FL	$ 51,298	$ 1,343,217	$ 216,491
17	Columbus, OH	$ 49,602	$ 1,331,169	$ 202,928
18	San Antonio, TX	$ 49,268	$ 1,288,388	$ 195,870
18	Houston, TX	$ 47,793	$ 1,248,517	$ 180,912
20	Dallas, TX	$ 47,243	$ 1,233,507	$ 175,298
20	Indianapolis, IN	$ 44,615	$ 1,197,333	$ 149,780
22	El Paso, TX	$ 43,200	$ 1,125,009	$ 134,461
23	Philadelphia, PA	$ 41,449	$ 1,130,113	$ 122,250
24	Memphis, TN	$ 38,826	$ 1,047,514	$ 91,295
25	Detroit, MI	$ 28,099	$ 737,861	$ 0

Estimates for savings needed are based on saving 10% of income, earning 5% returns on savings, cutting expenses by 27% in retirement and taking Social Security and retiring at 65.