RETIREMENT

The 'Rule of 25' for Retirement Planning

Try the simple calculation of the 'Rule of 25.' Because sometimes, a back-of-the-napkin idea is all you need to get started.

Great things really can begin on a simple bar napkin.

J.K. Rowling famously scribbled the first idea for Harry Potter on one during a delayed train ride. And years later, designer Paula Scher sketched the now-iconic Citibank logo on a napkin during a client meeting. In both cases, a quick, imperfect outline became the foundation for something extraordinary.

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When it comes to retirement planning, many people are looking for the same thing: a place to begin. Especially when facing one of life's biggest financial questions, "How much do I need to retire?"

That's where the "rule of 25" comes in. This quick formula suggests you should save 25 times your anticipated annual expenses to fund a comfortable retirement. While this rule offers a helpful guideline, it's not a one-size-fits-all solution.

Just like any napkin sketch, the real magic comes when you begin to fill in the details.

What is the rule of 25?

The rule of 25 is a simple way to estimate how much you need to retire comfortably. It provides a ballpark figure: take the amount you expect to spend each year in retirement and multiply it by 25. The result is roughly how much you'd need to fund a 30-year retirement, assuming a 4% annual withdrawal rate from your investments.

For example, if you want to spend $100,000 a year in retirement, you'd need about $2.5 million saved.

But the rule only applies to the portion of your spending that needs to come from your investments, notes Alex Caswell, financial advisor and founder of Wealth Script Advisors. If you expect to receive $40,000 annually from Social Security and want to maintain a $100,000 lifestyle, you only need to generate $60,000 from your portfolio. That would put your Rule of 25 target closer to $1.5 million (25 x $60,000).

So, how does that compare to what people think they'll need?

A recent Northwestern Mutual study found that Americans now estimate they'll need $1.26 million to retire comfortably. While that number may still seem ambitious, it's actually lower than last year's figure of $1.46 million, suggesting that expectations may be shifting alongside market realities.

Where the rule of 25 works — and where it doesn't

The rule of 25 can help you determine whether you're generally on track or need to save more. That directional clarity can guide your savings rate, portfolio decisions and retirement timing.

"It's useful for quickly illustrating the concept of financial independence," says Caswell.

But the number it gives you isn't necessarily your number. The rule of 25 doesn't take into consideration many personal variables that can significantly affect retirement outcomes.

"While it provides a simple benchmark," says Scott Bishop, partner and managing director at Presidio Wealth Partners, "it doesn't account for individual circumstances such as risk tolerance, sequence of return risk, guaranteed income sources like Social Security or pensions, and taxation."

Those income sources matter — often more than people realize. A Gallup survey found that nearly 60% of retired Americans consider Social Security a "major source" of their retirement income. By comparison, fewer than 30% say the same about retirement accounts like 401(k)s or IRAs.

The rule of 25 also assumes a 4% withdrawal rate based on historical U.S. market returns. While this has worked in the past, some experts question whether that rate is still sustainable given longer life expectancies and today's market conditions.

All of this underscores one point: the rule of 25 is a starting point, not a guarantee.

"A common misunderstanding is that people assume the rule of 25 guarantees success, regardless of market conditions or personal circumstances," Caswell says. "In reality, it's not a plan — it's a placeholder."

How to personalize the rule of 25

Experts agree that tailoring the rule of 25 to your specific situation requires thoughtful planning. What you actually need to retire comfortably depends on a mix of spending, income sources, taxes and risk tolerance.

“If someone expects higher-than-average investment returns or has guaranteed income from pensions or rental properties, the rule of 25 might be overly conservative,” says Caswell. “But if they retire early or face high healthcare costs, they may need more than 25 times their spending.”

Bishop adds that the type of income you’ll rely on plays a big role.

“People can retire with less than 25x savings if they have reliable income from a pension, rental property or part-time work,” he says. “The key is a diversified income strategy that ensures financial stability.”

Another key to personalizing the rule: understanding your true spending needs.

“That’s why I help clients build a personalized retirement budget,” Caswell explains. “We start by reverse-engineering their current spending, layer in lifestyle changes — like downsizing, travel or supporting kids — and stress test the plan for healthcare and long-term care. That gives us a far more realistic estimate.”

And then there’s the tax impact. Bishop notes that the location of your savings — whether in a traditional IRA, Roth IRA, or taxable brokerage account — can significantly affect how much of your retirement income is actually available to spend.

Why the rule of 25 is only the beginning

While it’s natural to want a clear number, focusing solely on that figure can distract from the bigger picture.

“It can overlook other critical aspects of retirement planning,” says Bishop. “It’s essential to consider quality of life, health and personal goals. A holistic approach that balances financial targets with lifestyle aspirations leads to more effective and fulfilling retirement planning.”

Caswell agrees that retirement isn’t a one-time calculation.

“Focusing too much on ‘the number’ can actually get in the way of better planning,” he says. “Retirement is a decades-long process with many moving parts.”

So while the Rule of 25 can offer some clarity, it’s not the full picture. Think of it as a starting sketch, not the final draft. It’s just the beginning of something more personal, flexible and complete. Your real number depends on how you live, what you value and how you adapt along the way.

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Jacob Schroeder is a financial writer covering topics related to personal finance and retirement. Over the course of a decade in the financial services industry, he has written materials to educate people on saving, investing and life in retirement. With the love of telling a good story, his work has appeared in publications including Yahoo Finance, Wealth Management magazine, The Detroit News and, as a short-story writer, various literary journals.

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