

WHAT AMOUNT DO YOU NEED TO RETIRE? THE MONEY MARATHON - JUNE 2013

There seem to be quite a few commercials these days from financial companies promoting services to help a person find their retirement "number". The idea is that this is a number that a person needs to have saved to be able to maintain his lifestyle at retirement. There was a recent article in *Kiplinger's* magazine (June 2013), "What's Your Retirement Number?" written by Jane Bennett Clark that had some good and concise information on this subject.

WHAT PERCENT OF INCOME DOES A PERSON NEED IN RETIREMENT?

Many experts set the income number that a person will need at 70% to 85% of preretirement income. The reason for the reduction of income in retirement is that some expenses will be smaller, such as retirement saving, payroll taxes, work expenses and income taxes. Certainly health expenses increase as people age, but once a person is on Medicare, his health costs may go down, particularly if he has been paying his own health insurance premium. Fidelity, one of the leaders in advertising "the number" uses an 85% replacement factor.

WHAT IS MY NUMBER?

Fidelity uses eight (8) times a person's income to arrive at the number. For a family making \$50,000, this would mean their number was \$400,000. For a family making \$100,000, this would mean \$800,000. These numbers assume an 85% replacement of income beginning at age 67 and includes Social Security benefits and spending down the savings over 25 years. Life expectancy of a man just reaching 65 is age 82 and of a woman just reaching 65 is 85. Aon Hewitt, the bookkeeping service for 401K plans, sets a higher number of 11 times final salary. A partner from the Pinnacle Advisory group recommends 25 times a person's preretirement living expenses after subtracting amounts to be received from Social Security and pensions. As an example, if a couple's preretirement household expenses are \$100,000 and their Social Security would be \$30,000, they would need to replace 25 times \$70,000 or \$1,750,000. This assumes a 4% withdrawal rate increasing each year with inflation. I think this is the most conservative way to look at retirement in that 4% is considered the standard for a safe withdrawal rate that minimizes the chances that a person would run out of money in a 30-year period, in even the most severe markets. Likewise, this formula gives a saver an excellent chance not to have to spend the principal, which will allow them to leave an inheritance to their children and or charitable gifts.

HOW MUCH SHOULD A PERSON SAVE AS A PERCENT OF HIS SALARY?

A good rule of thumb is 10% to 15% of gross income if a person begins saving for retirement immediately on entering the work force. If a person waits to begin saving, the percentage that needs to be saved at that time can be much higher. To gauge a person's progress, Fidelity thinks a person should have saved one times their salary at age 35, three times their salary at age 45 and five times their salary at age 55.

WILL MY COST OF LIVING DECREASE AS I AGE?

Everyone's situation is different. As an example, if a couple is entirely out of debt in retirement, including paying off their house, possibly they can live on 80% of their preretirement income. Also, although many people expect to increase expenses by traveling more in retirement, statistics from the Employee Benefit Research Institute show expenditures fall 19% by age 75 compared to age 65, 34% by age 85, and 52% by age 95. Statistically, people are doing less and consequently spending less as they age.

US News reported on March 19th of this year in "Workers Saving too Little to Retire" written by Kelly Green that 57% of Americans have less than \$25,000 in any type of savings and that 28% of people had no confidence they would have enough to retire comfortably. Don't be one of these. Use the statistics above to track and target the retirement "number" to help assure that it is reached.

Remember that every investor's situation is unique and it is important to review your specific situation with a financial professional.

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