THE MONEY MARATHON- MAY 2010 - IMPENDING RETIREMENT SHORTFALL

A recent study by the Employee Benefit Research Institute published by the *Kansas City Star*, April 1, 2010 reports that most workers are vastly unprepared financially for retirement. According to this study, one-fourth of all workers have saved less than $1000 for retirement. Another one-fourth has saved between $1000 and $25,000 and another quarter have saved between $25,000 and $100,000. This means 75% of all workers have saved $100,000 or less for retirement.

Of the last 25% of the population, 11% have saved between $100,000 and $250,000 and another 11% has saved over $250,000. (I know this only adds up to 97% but that was what was reported.) Most likely, the last group is probably the only group that has saved enough for retirement. Interestingly enough, the report also said that the majority of workers were confident or very confident about their financial security in retirement. Two thirds said they were doing a good job preparing financially for retirement. Although most respondents thought they have enough money for basic expenses in retirement, their confidence was much less that they would be able to cover health care needs and long term care.

HOW MUCH DOES A PERSON NEED FOR REETIREMENT?

According to Charles Farrell in the January 2006 *Journal for Financial Planning*, he believes a person should save 12 times a person pre- retirement annual income by age 65 with no debt. For most people, using a 5% withdrawal rate from the accumulated funds and considering Social Security, a person or couple should be able to achieve about 80% of their pre-retirement income, a figure that many financial planners consider adequate and likely to last 30 years. In an example given by Farrell, a person earning $80,000 should save 12 times this amount or $960,000. Withdrawing 5% would allow a $48,000 withdrawal, plus $20,000 Social Security for a total of $68,000, approximately 85% of his income.

Farrell has also developed some ratios for people to see if they are on target to reach their retirement goals based on their savings to income ratio for their particular age. He has likewise developed a target for debt to income based on the same criteria of income and age. This chart is listed below.

Age	Savings to Income Ratio	Debt to Income Ratio
30	.1	1.70
35	.9	1.50
40	1.7	1.25
45	3.0	1.00
50	4.5	.75
55	6.5	.50
60	8.8	.20
65	12.0	.00

As an example of how to use this chart, let's assume that a married couple, average age of 40, had $50,000 of annual pre-tax income. Based on the chart above, that couple should have savings and investments (excluding their home) equal to 1.7 times their income, or $85,000, and total debt (including mortgage debt) to income of 1.25 or $62,500. If a couple's ratios are equal or better than the chart, then they are on target to have enough in retirement. Otherwise, they need to save more and pay down debt quicker. It is important to start saving early in life because the time function of compound interest allows more time for money to grow. I tell young people starting out in the work force to save 10% of their income for retirement. The longer a person waits to save, the much higher percentage is required to reach his retirement goals.

I encourage you to set a goal for your savings so that you can retire comfortably like the 11% above that may have enough for retirement. Remember that slow and steady wins the race.

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

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