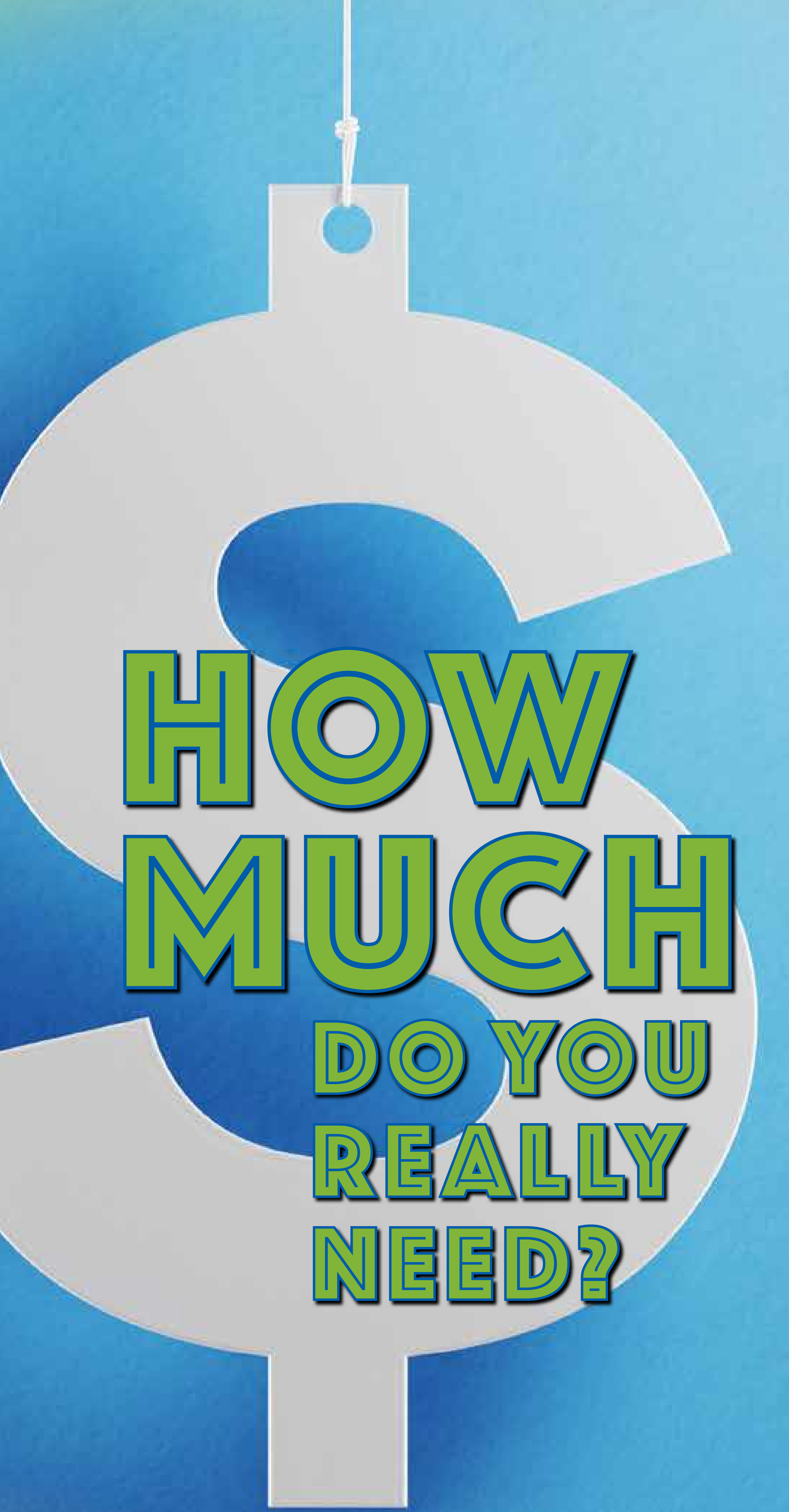

HOW MUCH DO YOU REALLY NEED?

FOUR STEPS TO FINDING THE RIGHT RETIREMENT INCOME NUMBER FOR YOU.

BY VICTORIA FILLET

Search the internet for an answer to how much money you'll need for retirement and the results will be many. For some time, $1 million was generally quoted as the safe figure for retirement.

Fidelity Investments recommends that you work until age 67 and save 15% of your income each year. Vanguard has a retirement income calculator that uses your current monthly income to estimate what you will need at retirement. (A common answer is your income would need to double!) J.P. Morgan published its extensive 2019 Guide to Retirement, which included a chart showing how much you should have saved from age 25 to age 65. It estimates that if you are currently 50 years old and earn $90,000 a year, you should have 4.6 times your income already saved, or $414,000.

Estimates are good guidelines, but it's best to know what number is most likely right for *you*. Follow these steps to find your number.

STEP 1
WHERE ARE YOU TODAY?

DETERMINE CURRENT CASH FLOW

Current cash flow in includes salary, capital gains, business income, rental income, consulting fees and any monies coming to you on a regular basis. These amounts added together give you your annual income, or cash flow in.

SUBTRACT CASH FLOW OUT FROM CASH FLOW IN

Current cash flow out encompasses your expenses, which should be placed into three categories: needs, wants and wishes.

What is a need? These are your fixed annual expenses and include mortgage payments, taxes, healthcare, insurance premiums, daycare, utilities, tuition, memberships, subscriptions, loan payments and credit card payments. These expenses should be paid each month on an ongoing basis.

What is a want? Wants are the discretionary annual expenses that have some flexibility. They might include food (eating in or eating out), entertainment, transportation, shopping, gifts and weddings.

What is a wish? Expenses in this category are most likely different for everyone but can include all the things we wish we could have, such as vacations, leisure activities (golf, tennis, boating), travel, club memberships or a second home. Also, some may be current and some goals may be to save for in retirement. For example, a second home is sometimes the top priority for a retirement goal, but you most likely won't be able to achieve this goal if you don't plan for it.

When you add up your needs, wants and wishes, you have the total of your cash flow out and are now ready to subtract your cash flow out number from your cash flow in number.

If you come up with a positive number, you're ready to go to Step 2. If not – you find that your expenses are greater than your current income – you are probably already living in a cash flow-negative environment. You may need to eliminate some expenses or cut back where you can. This is an important step and should not be avoided in order to move on!

Special note to business owners: If you are currently a business owner, you might be using your corporate entity to cover your current business expenses and, at the same time, these may include some personal expenses. In retirement, if you sell your business, all expenses become personal, which may make your numbers dramatically different.

STEP 2
WHERE WILL YOU BE AT RETIREMENT?

RETIREMENT CASH FLOW IN

How much annual income are you expecting to receive in retirement? These payments may include Social Security, annuities, pensions and any other income that may be generally guaranteed to you for life or a certain period. Social Security includes a cost-of-living adjustment, which may or may not result in an increase from year to year. Pensions and annuity payments generally do not contain inflation protection.

Add these income streams together to get your retirement cash flow in number.

RETIREMENT CASH FLOW OUT

You'll read many articles quoting financial advisors who state that people will spend less in retirement, their reasoning being that retirees will no longer be saving for retirement, will not be commuting to the office and will be spending less in general. As a practical matter, we believe this thinking does not work.

Retirement is your time to enjoy life and family. Since you have more time, you may be traveling and enjoying more leisure activities, a natural occurrence and what retirement should be. As you age, these leisure activities are generally replaced by increased medical expenses. For these reasons, we believe retirement cash flow out will be your current cash flow out inflated for retirement.

Subtract your retirement cash flow out number from your retirement cash flow in number; the difference is the amount of additional annual income you may need to receive in retirement from your retirement portfolio or other assets.

A special note on healthcare costs: In general, most of us will be responsible for paying for our own healthcare in retirement. We most likely will not have a corporation or business absorbing this expense. Medicare is not free. There are basic monthly charges, but to have complete coverage, you will likely need a supplement or advantage plan. The costs for these plans vary by state and income level.

A 2019 study conducted by Fidelity found that the average couple retiring today at age 65 would need $285,000 in today's dollars to pay for out-of-pocket medical expenses over 20 years. This figure does not include assisted living, nursing home or home aide costs.

STEP 3
LONGEVITY

We really don't know how long we'll live, but we need to make a guess when we are developing a retirement plan. Consider a few factors when determining your estimated lifespan: Do you have longevity in your family? Are you healthy; do you exercise and eat well? Do you smoke or drink heavily? Do you have any chronic illnesses?

Longevity is a personal number, different for everyone, but we encourage you to estimate and save for a longer life. If you make it to your estimated age, you'll be prepared!

Today, according to the Social Security Administration, the average 65-year-old male will live until age 84.3, while the average 65-year-old female can expect to live until age 86.6. On average, then, most people can expect to live about 20 years after retirement.

There are several steps needed here to give you the correct cash flow needed for your retirement. Your yearly expenses will need to be adjusted to accommodate inflation, especially healthcare, food, entertainment and most living expenses. In addition, we are currently in a low-tax environment, but that could change. This is an area in which a financial planner's advice and financial software calculations may help.

STEP 4
CREATE YOUR RETIREMENT PORTFOLIO

Hopefully, during your working years, you continued to save both in and out of a qualified retirement plan either at your place of business or on your own. The questions now are how much have you saved and how much do you really need, which is the most important part of the plan?

We start back at Step 2, where you determined your retirement cash flow. This is the amount of money you will most likely need to receive from your qualified and nonqualified savings and investments on an annual basis.

USING THE 4% RULE FOR RETIREMENT SAVINGS

There are different ways to determine how much money you may need to save to get the annual retirement income you desire. In general, a popular rule for distributions from savings is the 4% Rule. You can use this formula to divide your desired annual retirement income by 4% to determine the amount of money you may need to save in order to meet your goal.

An example of the 4% Rule: Let's assume you need an annual income of $100,000 in retirement, and you'll be receiving about $20,000 a year from Social Security. You will need to generate $80,000 each year from your savings.

To do that, you would most likely need a nest egg at retirement of about $2 million ($80,000/0.04). This strategy assumes a 5% return on investments (after taxes and inflation), no additional retirement income (e.g., pension or annuity) and a lifestyle similar to the one you would be living at the time you retire.

Two million dollars is a big number. How do you get there? Generally, the earlier you start saving the better and the smaller percentage of your annual income you may need to devote to saving for retirement. No matter when you start, the point is to start saving as much as you can.

Just in case you did not or could not start early, how do you go about catching up? Here are some guidelines for saving that were part of a study conducted by J.P. Morgan Asset Management in 2019.

In the chart above, go to the intersection of your current age and closest current household income. This is the percentage of your current household income you should contribute annually going forward if you have $0 saved for retirement today. Example: A 40-year-old with a household income of $100,000 and $0 saved for retirement today may need to save 23% every year until retirement. Note: Modest forward-looking returns may require higher savings going forward. Values assume you would like to maintain an equivalent lifestyle in retirement. Household income is assumed to be gross income (before tax and savings).

Saving	$30,000	$40,000	$50,000	$60,000	$70,000	$80,000	$90,000	$100,000	$125,000	$150,000	$175,000	$200,000	$250,000	$300,000
Start saving age	Savings rate (x current household income)								Savings rate (x current household income)					
25	7%	7%	7%	8%	9%	9%	10%	10%	11%	12%	13%	14%	15%	15%
30	8%	9%	9%	10%	11%	12%	13%	13%	14%	16%	17%	18%	19%	20%
35	11%	12%	12%	13%	15%	16%	17%	17%	19%	20%	22%	23%	25%	26%
40	15%	16%	16%	17%	19%	21%	22%	23%	25%	27%	29%	31%	33%	35%
45	21%	22%	23%	24%	27%	30%	31%	33%	35%	38%	41%	43%	46%	48%
50	31%	32%	34%	36%	40%	44%	47%	48%	52%	57%	61%	64%	69%	72%

SUMMARY

Outlined above are general guidelines. Everyone is different in their needs, wants and wishes, and how they get to a comfortable retirement savings level may not be the same. Don't forget to include any employer contributions when reviewing your plan and maximize any opportunity to save.

Saving may not come easy to all of us. Sometimes we can save more, sometimes less. What's important is to get as close to your savings goal as possible and check your progress at each benchmark to make sure you're staying on track.

Here are some things that may help:

- Put savings in your needs basket along with the rent, mortgage and other nondiscretionary expenses.
- Make saving automatic. Arrange for savings to be deducted immediately from your paycheck – since what you don't get you can't spend!
- Check your account balance and give yourself a reward for staying on track! A dinner out or a special coffee rewards you for doing a good job and encourages you to keep going.

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