HOW MUCH IS ENOUGH?

PLAN AHEAD AND CONQUER THE FEAR YOU WILL EXHAUST YOUR ASSETS BEFORE YOU RUN OUT OF TIME.

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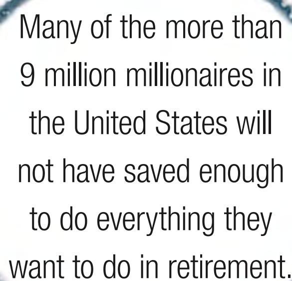
Not Your Father's Golden Years
VISIT

Mortgage

For as long as retirement has been an accepted concept – and in the history of the world, it's a rather new idea (see page 20) – the question "How much do I need?" has dogged those approaching their post-working years. In fact, the question may never have been more important than it is today, because it is clear that in the United States, individuals are expected to bear the major responsibility for determining the quality of their retirement years.

As company-paid pension plans evaporate, more and more workers are stepping out of the labor force without a corporate pension. Those who haven't saved and invested to fund their retirement years may find colorful visions of long beachside holidays, country club life or exotic travel quickly fading to black.



It doesn't have to be like that, but there is a heavy dose of reality here. A survey published in April 2007 showed that nearly half of all workers saving for retirement reported less than $25,000 in their retirement funds.[1] While more younger workers (ages 25 to 34) were surveyed – and 68% said they have less than $25,000 saved for retirement – 50% of workers 35 to 44 and 33% of those 45 to 55 said the same thing. Of the total surveyed, 40% said they are not currently saving for retirement, 34% indicated they have no retirement money saved and 25% said they have no savings at all.

Picking a Number

While not presented as a magic number, the Employee Benefits Research Institute suggests that by the day they retire, men should have saved 12 times their pre-retirement income and women 14 times (due to greater longevity). Using those guidelines, a man earning a salary of $125,000 and contemplating retirement should have saved $1,500,000, a woman $1,750,000.

Investment research firm Ibbotson Associates suggests you try to replace 80% of your net pre-retirement income, figured as your gross pre-retirement income minus your retirement savings. That is, if you're making $125,000 a year and saving $20,000, your net pre-retirement income is $105,000. Under this scenario, your task would be to save enough to provide yourself with 80% of $105,000 ($84,000), with your income stream coming from Social Security and a percentage of your retirement savings (plus whatever other retirement income sources you may have).

Retirement planners often make a general call for you to save an amount that will provide you with approximately 75% of your pre-retirement income if you intend to maintain your current lifestyle. Then adjust that amount up or down depending on your plans – up if you plan to travel extensively, down if you are likely to move to a smaller house in a less expensive location and spend your time gardening and visiting with family and friends. The Social Security Administration suggests yet another target figure – one that will provide you with 70% of your pre-retirement income.

An often-quoted "magic number" is $1 million, which has had a magical quality for generations. However, millionaires are no longer rare. London-based market researcher TNS Global in April reported 9.3 million millionaires in the United States, a figure growing at about 5% annually over the past few years.

The sad news is that in today's economy, many of those 9.3 million will not have saved enough to do everything they want to do in retirement. Even $1 million isn't likely to last 30 years if it is called upon to fund annual month-long trips to Europe, country club memberships and greens fees and an annual ocean cruise or two. But don't be discouraged. If you have more modest aspirations, that $1 million nest egg is going to look pretty good.

By now, you get the idea that there is no one-size-fits-all magic number. With some diligence on your part, however, you may be well able to arrive at your own unique figure that will suit your retirement ideas perfectly.

Calculating Expectations

In searching for your number, you'll need a lot more than a calculator, because to really determine how much you'll need,

[1] Employee Benefit Research Institute and Matthew Greenwald & Associates, *2007 Retirement Confidence Survey*.
[2] "As the Mass Affluent Approach Retirement: Opinions of Retirement and Retirement Income Planning," *InvestmentNews* survey, March 26, 2007.
[3] *Retirement Confidence Survey*, Employee Benefit Research Institute.

your crystal ball should reflect your actual expectations for your retired years. Quite simply, do you envision first-class travel to Europe and weeks in luxury hotels? Or tourist class airline seats with accommodation in fine but more modest establishments? Do you expect to rent a beach house for several weeks annually? Travel cross-country in an RV?

Half the battle in getting a real handle on retirement needs and finding useful numbers, observers agree, lies in persuading investors to inject a large dose of realism into their visions of the ideal retirement.[2] While 20/20 foresight would be ideal, it's not possible. What's more, real objectivity isn't always possible either, which is where your relationship with your Raymond James financial advisor can lend tremendous value as you peer into your retirement years and establish a realistic budget.

Those Other Numbers

To arrive at a number, put in real figures on a projected expense sheet. Sure, you may spend less for day-to-day activities – commuting expenses, work clothes, dry cleaning – but that may only offset higher travel or recreational expenses. If, as you proceed, you find this a difficult exercise, you're in good company – only 42% of workers have even tried to determine their retirement savings needs.[3] Those who did, however, reported being inspired to bolster their savings in order to reach their target number.

Project your circumstances as accurately as possible. Will your mortgage be paid off? If so, your monthly income requirements may be less. And add another "risk" to the list of market risks you're already aware of as an investor – add "longevity risk" to the mix. It is a major element in determining your number, and will require your taking into account your general health and the longevity history of your family.

Imagine the Possibilities

Keep your feet on the ground, but dare to dream a little as you plan your retirement life. After all, before you can assess your chances of reaching a number, you'll want to establish some goals. Think of this: if your retirement was precisely what you'd like, what kind of retirement would that be? What do you actually want to do? Where do you really want to go? Rank your choices by priority, then cost. Don't be afraid to be grand. If you want to take the luxury barge *Fleur de Lys* along the rivers of the Cote d'Or wine region in Burgundy, note it down. You may be shocked and cross it off your list; you may decide it's a once-in-a-lifetime experience you should arrange. As you continue assembling your wish list, note approximate costs – and don't underestimate. Remember, costs are likely to be more, not less, when you actually get around to booking your holiday or joining the country club.

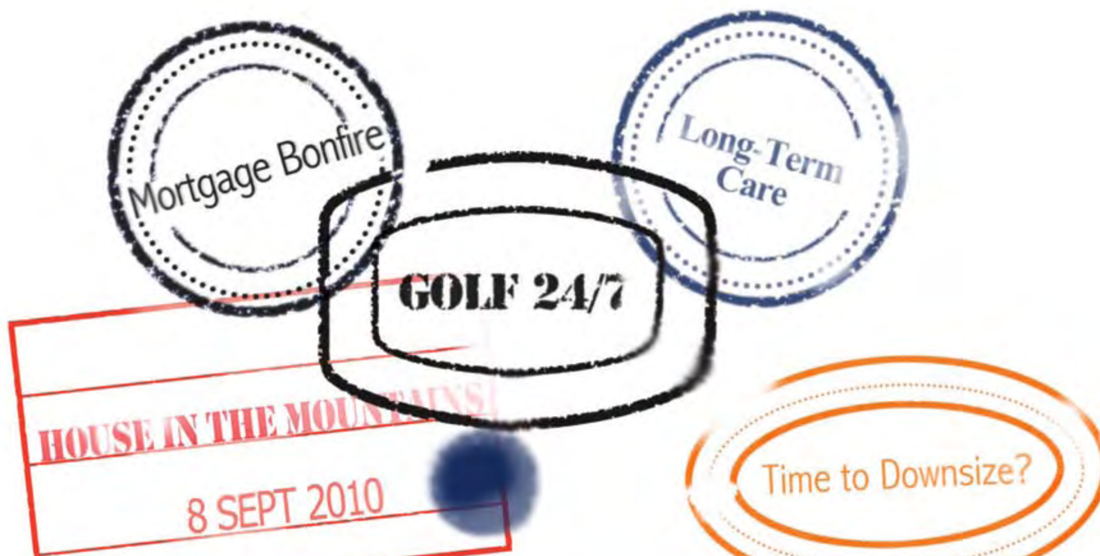
Finally, consider your legacy, including your philanthropic ambitions and your plans to give or leave gifts to your children and grandchildren or others. The details can be arranged later; right now you're just putting down numbers to fill out your retirement lifestyle.

Only after you have completed the picture of what your ideal retirement looks like can you and your advisor realistically set about finding your number.

Refocusing the Mind

Whatever your investment decisions, prepare for your investment outlook to undergo a sea change.

If your focus has been growing your portfolio during your working years, most advisors recommend switching to more of a preservation mode during retirement. A portfolio designed to preserve rather than grow may not be as exciting to watch, but having a solid financial foundation under you creates its own sense of satisfaction – from protection to generating the income you require to maintain your standard of living. Nevertheless, it is always important



The Advisor's Eye: **Financial Professionals Define the Number**

If only there was a magic formula that would reveal every investor's singular retirement "number." But financial experts know that defining a meaningful retirement target requires an understanding of the markets, knowledge of the intricacies of constantly changing investment vehicles, and something far more important – insight into an individual's life and how it will be lived.

Financial advisors make the most impact in retirement planning when they address process, not product. They lay the groundwork by discussing an investor's current asset picture, setting return objectives and assessing risk tolerance. Discussions about career, family and future plans are central to proper planning, because without this information the advisor can't properly determine the nuances of the person's situation or the strategies that fit best. Only after forming a foundation of knowledge will the advisor move on to the next step of the process: creating a plan of action that may potentially maximize income during the investor's retirement years.

Just because retirement planning is multifaceted doesn't mean it has to be laborious. The most effective advisors provide the kind of guidance that not only helps define the retirement asset goal quickly, but also develops a realistic plan designed to get there. The right advisor can suggest financial solutions that can make a difference for years to come.

Informed advisors know that every retiree is different – with different goals, different expectations and different attitudes toward risk.

No two retirement dreams ever look the same. That's why the most successful approach to retirement planning is one that's precisely tailored. Financial counsel has real meaning when it comes from advisors who have a personal bond with their clients and who choose to function within a culture that allows completely unbiased advice; it's the most appropriate way to ensure that a retiree's "number" is realistic and achievable.

to remember that, just as there are no certainties in life, there are none in finance, either. Market risks exist in all categories, and unless your base is large enough to survive with your retirement drawing only bank or money market interest and dividend rates, you are probably going to have to accept some of them.

One computer model that forecasts the likely future results of various investment strategies incorporating all manner of possible market scenarios shows that a nest egg of $1 million at retirement might grow to approximately $4 million after 30 years of retirement or be reduced to zero after 24 years. The message is that no one knows the future and that the results of even the most solid strategies can differ enormously – and every small thing matters. If you retire in a bear market, you'll be drawing down your nest egg at a time when it's not being replenished easily. If you retire when the bulls are running, you may hardly notice you have drawn on your nest egg. If you can adjust your retirement needs accordingly, you may well do fine.

Finally, you are sure to determine your "staying rich" number, your answer to "How much is enough?" – an amount, even if invested in a very conservative portfolio, that you won't outlast. This is your target as you save and invest in the years before retirement. Adjust it for inflation as the years go by and you may well achieve all or at least the lion's share of those pleasant retirement dreams you committed to paper when you were planning for the next stage of your life.

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A Brief History of Retirement

The concept of retirement doesn't occupy very many lines in the social history of the world. Although we may like to think retirement has always been part of human history, it has only been around since the late 19th and early 20th centuries. It is an idea constantly being redefined.

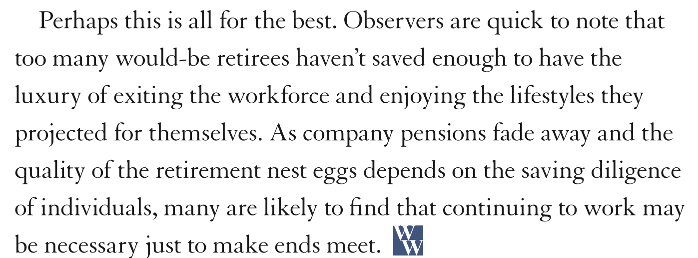
Before the beginning of the last century, no one retired except the very rich, and even they usually tried to do useful things until death. The most economically advanced nations were agricultural societies. People worked until old age or disease rendered them unable able to. People were expected to be useful to others, and in old age or illness, the family was the only support. Even those occasionally long-lived great-great-grandmothers or grandfathers worked either until they could labor no more or until they died. Perhaps there was some solace in the idea that by the time they reached old age, they were thought to have acquired wisdom.

The Industrial Revolution initiated a change. Factories began to dot the landscape, and workers labored until they were no longer mentally or physically fit to do the hard factory work. Age became a liability. When the Great Depression hit after the stock market crash of 1929, the United States government tried to find a way to remove less agile and adaptable older workers from the factories and replace them with younger, stronger, quicker workers, who at the time were out of work and roaming the streets – or illegally riding the rails.

Social Security was instituted in 1935 as an official means of providing for older workers who were no longer useful to the economy. Retirement was short, usually under 10 years – more often two years or less – but for the first time, people had some time to put their affairs in order before they died.

This retirement program was not the first. Germany had already begun a version of social security in 1889 when the government set a retirement age of 70 (later reduced to 65), after which the pensioner received a small stipend from the state.

However long or brief the retirement period in these earlier times, they were seldom the "Golden Years," or today's projected 30-year vacation from work, with days filled with golf, travel, cooking classes, dancing and reflecting on the meaning of life. In 1930 the average "retirement" age was about 70. Today, it's 62. Gradually, companies established increasingly generous pensions. Social Security benefits were given a major boost of 77% in 1950, then another 20% in 1972. Later, automatic annual increases equal to the rise in the cost of living index were added.



In time, poverty among the elderly became a fairly rare phenomenon. The elderly remained healthier than before, retained more of their youthful energy – and happily unburdened themselves of the necessity of being useful. Today, while it doesn't happen for everyone – because a retiree's health is a major unknown – retirement can be a time to play and enjoy the rewards of accumulated experience and wealth.

The only constant idea about retirement is that it continues to change. Today's retirees tend to exhibit a lot of energy. They entertain great expectations for their 70s and 80s and 90s. The idea of a leisurely, relaxing "Golden Years" is becoming an antiquated concept. And retirees now can much more easily remain a productive element of the working fabric as jobs evolve from physical labor into information-based models.

Perhaps this is all for the best. Observers are quick to note that too many would-be retirees haven't saved enough to have the luxury of exiting the workforce and enjoying the lifestyles they projected for themselves. As company pensions fade away and the quality of the retirement nest eggs depends on the saving diligence of individuals, many are likely to find that continuing to work may be necessary just to make ends meet.

Planning for the Unknowable

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No matter how realistic you force yourself to be as you project your financial needs for your retirement years, there is one unknown that resists forecasting – your health and future healthcare needs.

If you already have health concerns, you may have some idea on how to calculate healthcare costs. But even if your health is not a concern when you enter retirement, there is no guarantee it will stay that way and every likelihood that at some point it will deteriorate. (See the Spring issue of *WorthWhile* for a longer discussion of planning for long-term healthcare needs.)

When searching for your "number" – and then crystallizing it with your financial advisor – consider how you would handle a pressing healthcare situation. Do you have enough to pay for several years of care should you or your spouse get Alzheimer's and need in-home or nursing home care?

Most general discussions of retirement in healthcare suggest that a couple aged 65 today may expect to spend more than $200,000 for healthcare during their retirement. It is always wise to make long-range healthcare part of your financial plan.