# Will You Have Enough Money to Retire?

Nobel prize winner William Sharpe calls it the "nastiest, hardest problem in finance." What is that? Decumulation, or the process of building a dependable lifelong income stream from your retirement savings.

It's no wonder millions of Americans are asking if they will have enough money to retire comfortably. Between rising health costs, multiplying risks, and the real possibility of "lifelong" referring to what can be a *very* long time, there are multiple priorities to juggle as you build a personal retirement strategy.

Many Americans worry about whether their life savings and income will last for the rest of their lives, as a recent survey found.

In the poll of 3,119 adults, aged 25-74, the majority of retired individuals (71%) felt confident that their savings and income would last. Meanwhile, just 42% of working-age Americans said they had that confidence.

The survey findings were published by the Alliance for Lifetime Income, a non-profit funded by life insurance carriers and asset managers to educate the public on annuities.

## Income Confidence Shaken by a Changing Landscape

One reason for the public's widespread concern? The shift from the security of defined-benefit pensions to 401(k) accounts and other defined-contribution plans, according to Cyrus Bamji, head of communications for the alliance.

This has left investors holding the bag on what Sharpe says is one of the largest challenges in finance today: ensuring you have a stable income that lasts for many years to come.

And not just that. Now people must figure out, on their own, how to stretch their money out over decades so they can enjoy a secure lifestyle. It's yet another challenge from the nationwide march to self-managed retirement plans.

In turn, Bamji says, it leads working-age Americans into doing nothing rather than plan for retirement.

"There's this paralysis where they don't want to think about retirement because it may be five, 10, 20 years away, or maybe never," he explained in a conversation with Barron's. "A lot of folks don't think they will ever retire."

Overall, the surveyed working-age Americans viewed healthcare costs, unexpected financial setbacks, and health issues as the main threats to their retirement confidence.

## Will You Have Enough Money for Retirement?

No retirement is the same as another. The hardest problem in finance is just too complex for simple rules of thumb.

While it may seem formidable to build a steady income that lasts for your retirement, it doesn't have to be. The answer to how much money you need in retirement depends on what retired lifestyle you hope to pursue, and the amount of money needed to sustain that lifestyle.

To reach your goals, we suggest completing these four steps:

1. Planning for how much monthly income you will need over, at minimum, a 30-year period.
2. Putting your plan into action with the specific vehicles that best help you reach your income goals.
3. When retired, taking income from your portfolio as your plan has outlined.
4. Doing periodic checkups on your financial situation in order to see if any changes or adjustments would help.

In our view, planning is the most important step. It creates a benchmark to measure your progress and a roadmap to guide your future actions.

## Your Personal Vision is What Matters

Throw those articles about "everyone needs at least $1 million in savings" and the other one-size-fits-all retirement verdicts out the window.

Your retirement vision is what matters. To that end, your personal plan should cover two areas: the specific objectives of your personal vision, and what amount of income you need to make them happen.

Think through these questions as you start your planning strategy:

- How much money will you need to spend in order to maintain your personal lifestyle goals?
- Where will the money come from: Social Security, your life savings, your retirement assets, so on?
- How much do you expect to earn from Social Security, pensions, personal savings, and any other income sources?
- What will you do if you have a savings shortfall to cover?

## How Much Money Will You Need to Spend for Your Lifestyle?

Some experts say mature-age people will need to replace at least 70% of their current income so they can retire comfortably.

That is based on the idea that some expenses you are covering now will go down or disappear in retirement: costs of raising children, mortgage payments, monthly grocery and food spending, professional wardrobe expenses, and work commute costs, to name a few.

However, other costs are likely to go up, from healthcare and prescription drugs to entertainment and, potentially, even your overall monthly living expenses.

You might use the yearly income you earn now as a starting point, since you already depend on that level of cash-flow to pay the bills. This would give you a safer base to work off.

Say you earn $85,000 a year and you are saving $10,000 each year for retirement. Based on the 70% rule, you would need at least $59,500 in annual income during retirement.

The safer approach, in which you shoot for your current income as your post-retirement goal, would call for $85,000 in annual retirement income. And that would be a lower figure once you add in the money you bring in from Social Security as well as other sources outside your portfolio.

## A Better Approach

While this may be an efficient starting point, it still doesn't completely pinpoint how much income you will need, based on your personal goals.

A better approach to determine how much you will need to spend is to build out a detailed spending plan. You will find an exceptional guide in our What Might Spending Look Like in Retirement article, but here are some quick pointers.

Break up your spending plan into two sets of expected expenditures. The first is *Must-Have Expenses*, or the price tags of those items you can't be without, including housing, food, utilities, and medical and healthcare services.

Your second set of spending areas will be your *Discretionary Spending*. Those items may include hobbies, travel, entertainment, and subscriptions.

A big question for your spending picture will be place of residence. If you plan to "age in place" in your own home, be sure to factor in the related costs: appliance repairs and upkeep, home renovation projects, incidentals like lawncare (if you don't handle that), repairs, and property taxes.

Include in discretionary spending any one-time experiences that you may have planned over the years, such as a cruise or luxury travel to foreign lands. Run the numbers over at least a 30-year period. Then you will start developing an idea of how much income you will need year to year.

## Where Will the Money Come From?

You may have sources of income outside of your portfolio. Chances are you will have Social Security, if you have worked for a 35-year career or longer. A guaranteed pension may also be part of your non-portfolio mix, depending on your workplace.

As you calculate how much annual income you will need from your savings, subtract the money you will receive from these non-portfolio sources. For example, say you were aiming for $85,000 and, between you and your spouse, you expected $30,000 from Social Security benefits.

This would leave a $55,000 income gap to cover from year to year.

## How Much Will You Earn?

You have an idea of how you will need to spend — and how much you anticipate you will receive from Social Security, pensions, and other guaranteed sources. Now it's time to determine how you will cover the remaining income gap.

As said before, subtract the money you receive from your guaranteed sources from the amount you expect to spend. If you were aiming for $85,000 annually and expected to receive $30,000 from Social Security, you would be left with $55,000 to cover from your portfolio.

For Social Security, be aware of how the timing of when you take your benefits affects how much you will receive. Waiting past full retirement age can increase your Social Security payouts by 32%.

If you claim before full retirement age, you will start your payouts sooner, but you may miss out on tens of thousands in lost benefits than if you had waited.

What if you plan on a second-act career or entrepreneurship past retirement? Once you have an idea of how much you expect to bring in each year, subtract that amount as well from your spending goal.

The difference will be what you need for each year from your portfolio assets.

If you planned on earning another $10,000 from a consulting business you ran, for example, your new target would be $45,000 in annual income.

From here, you can get an idea of how much you would need for your first year of retirement. Run the numbers over a 30-year period to start getting a rough estimate of how much you need to have for your savings.

## How Will You Cover a Savings Shortfall?

For back-of-envelope calculations, you can use the 25-year rule. That is based on the idea that a total portfolio worth 25 times of your initial expected spending in retirement will be enough for a 30-year timeline.

Using that rule with the numbers above, an annual goal of $45,000 times 25 would be a portfolio of $1.13 million. But this rule of thumb falls short in many ways.

It doesn't account for inflation, taxes, fees, or portfolio returns.

Not only that, it misses out on opportunities in which you might leverage assets with conservative risk pooling, like annuities, that can lower the amount of lifetime money that you might need.

These possibilities show the value of working with an experienced financial professional. To find someone who is right for you, read our article on hiring a financial professional and avoiding key mistakes during your search.

With an expert's help, you can develop your own personal financial forecasts and plan. This becomes increasingly important as your retirement nears.

If you find your retirement goals and your current financial resources don't align, you might have quite a few ways to bring them together:

- If you have a 401(k) or other employer plan, step up your contributions.
- Contribute to your IRA and/or Roth IRA.
- If you are over 50, take advantage of catch-up contributions.
- Consider other savings vehicles that can benefit you with tax-deferred growth.
- Explore other income-earning opportunities, such as consulting opportunities or "side gigs."
- Put away raises, bonuses, additional earnings, and tax refunds for your retirement future.

What about other courses of action? You can work longer, wait to become eligible for Medicare, and maximize your Social Security benefits to further benefit your retirement outlook.

## Start Planning Today for Tomorrow

The most important step? That you begin. By preparing for a comfortable retirement now, you can start putting your best foot forward. And after you have created a plan, make sure to do period checkups on it.

Life is a constant state of change, and at times some adjustments to your plan may help you in achieving your goals. If you are ready to get started today, you might consider working with a financial professional to start planning for secure tomorrows, today.

A financial professional can help you walk through these "what-ifs" and create strategies that help you progress further toward your goals.

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