GUARDIAN®

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Re: Quarterly Newsletter/Winter 2016

Dear Clients and Colleagues:

We hope you enjoy our quarterly newsletter addressing financial planning, insurance and investment topics. With the Super Bowl approaching, for fun we are including a football trivia question and we will provide the answer in the next newsletter.

Trivia

What Princeton University great won the Heisman Trophy but never played pro football?

Financial Planning Checklist

Each household should periodically review the following areas to make sure each is optimized: 1) medical insurance, 2) life insurance, 3) disability insurance, 4) long term care planning, 5) auto/homeowners/umbrella coverage, 6) emergency savings, 7) cash flow/debt management, 8) retirement savings, 9) asset allocation/risk tolerance/rebalancing, 10) tax minimization, 11) college funding, and 12) will, living will and power of attorney.

Retirement Planning -- How Much Should I be Saving?

Income Replacement Percentage

For those in the accumulation phase in their working careers and not on the verge of retirement, there is general consensus that pre-retirees should aim for 70-80% of gross income replacement in retirement. For instance, a fifty year old couple with combined income of $300,000 might shoot for 70% income replacement -- $210,000. On a real dollar, inflation adjusted basis (3%), at age 65 that would mean $327,000 of annual retirement income. The total retirement savings needed at retirement to generate this retirement income can then be calculated. For example, assuming $50,000 of combined social security income and a static 7% rate of return, a sum of approximately $5,000,000 would produce inflation adjusted income of $327,000 for thirty years. Let us assume that the couple has $1,500,000 of retirement assets at 50. Assuming the same static 7% rate of return, the couple would have to save about $32,000 per year to meet their retirement goal.

Straightforward Income Percentage and Multiple Formulas

Some recommend 15-20% retirement savings each year. That method ignores the current status and income goal but otherwise is helpful in encouraging people to save meaningfully for retirement. Others recommend a multiple of pre-retirement income as the required initial nest egg amount. AON Hewitt, for instance, recommends a benchmark of eleven times final salary.

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Other Considerations – Medical Costs, Long Term Care and Social Security Claiming

A recent study estimates that the average couple will incur $151,000 of out-of-pocket medical expenses during retirement. That amount needs to be added to the required capital at retirement. In addition to out-of-pocket medical expenses, there is a substantial risk of long term care expense, which is not covered by Medicare or traditional medical insurance. The timing of claiming social security benefits is also critical. Unless social security funds are needed immediately or there is a realistic expectation of short joint life expectancy, in most cases it is sensible to delay receipt of benefits until age 70. In the example above, the $50,000 of combined social security benefits would grow to about $61,000 at age 70 (assuming an annual 3% inflation adjustment) and would be payable for life with an annual inflation adjustment.

Spring 2016 Newsletter

In the next edition, we will review the recent and historical research concerning sustainable withdrawal rates from retirement portfolios. Stay tuned!

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