The State of Retirement Readiness In America Today
Part 2

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So how do you know if you're saving enough? As a general rule of thumb, you'll need to have saved eight times your final salary by age 67 if you want to maintain a lifestyle similar to the one you had while working. To reach that number, here are some checkpoints along the way. You should have one times your annual salary saved by age 35. By 45, three times your salary. At 55, your savings should have risen to five times your salary and eight times by age 67. AARP's figure is nine times, while Money Magazine says more like 12 times.

For example, if your final salary is $100,000, at eight times, you'll need $800,000 set aside in a nest egg. For many approaching retirement, they have a retirement shortfall and the challenge becomes just how big that shortfall really is. If you have a retirement shortfall, the time to address it is now, while there's time to make adjustments.

As a nation, American workers are $6.6 trillion short of what they need to retire comfortably. Have you ever wondered just how big a trillion dollars really is? Take a $1,000 bill. If that stack is 4 inches high, you're a millionaire. To be a billion dollars, that stack would have to grow to 358 feet. How high do you think that stack would have to be to have one trillion dollars? How about 67.9 miles high!

In addition to your nest egg, you also must address inflation. It affects every retirement portfolio and it's especially problematic for retirees on fixed income. A recent headline in the Wall Street Journal said, "Low Interest Rates Crack Retirees' Nest Eggs." With inflation, your money is worth less each year. So how do you preserve your buying power for the next 30 years? That's a tall order…but it can be accomplished.

From 1925 through 2012, inflation has averaged just over 3 percent. At 3% inflation, a 62-year-old baby boomer living off of $100,000 per year today would need more than $134,000 in annual income at age 72, $180,000 per year at age 82, and $242,000 per year to preserve their buying power over their probable life span.

After longevity, withdrawal rate risk is one of the big challenges retirees face. Most Americans have no idea how dangerous it is to withdraw too much from their nest egg each year. So, what is the appropriate spending rate from a nest egg?

When asked how much money they need to support themselves in retirement, the median response was $300,000, but the median savings of the respondents was just $25,000. When asked how much they thought they can afford to withdraw from that nest egg each year, the typical response was 10%, nearly triple the generally accepted rule of thumb of a safe 3 - 4% withdrawal rate.

When asked how they come up with these predictions, 75% of respondents guessed. Guessing is not a retirement strategy. The Wall Street Journal said that a 2% withdrawal rate is bullet proof, 3% is considered safe, 4% is pushing it,
and with 5% or more, you run the risk of possibly running out of money. Have you ever wondered how long your money would last if you stopped working today?

How about Social Security? What is the optimum age for you to retire to maximize your benefits? Someone earning $50,000 retiring at 62 today would receive about $1,000 a month. If they waited until 70 to retire, the benefit would rise to about $1,951 per month, almost double.

Nevertheless, a startling 72% of Social Security recipients begin drawing their benefits at age 62, the earliest year of eligibility. The fact is that each year you delay taking benefits beyond full retirement age, Social Security increases by 8 percent, up to age 70. Knowing that, one would naturally assume the best way to boost your retirement income is to delay taking Social Security benefits. But you might want to think again. Several factors go into that decision.

Here's the challenge with Social Security. With 78 million baby boomers reaching retirement age, 10,000 a day will stop working, stop contributing into Social Security, and start taking money from the program.

When Social Security was born in 1935, life expectancy was just 58 for men, 62 for women, with the retirement age of 65. Social Security was designed so workers would pay in, but most would pass away before they retired and started taking benefits. The situation today is much different with people often living into their 80's, 90's and beyond. The fastest growing segment of the population is the oldest – those 80 and over, putting even more pressure on Social Security.

This explains why Social Security is less certain than in the past. In 1945, there were 42 workers supporting each retiree. In 1950, there were just 16.5 workers for each retiree. Today, it's down to 2.8 to 1 and by 2030 it's expected to be 2 to 1. Social Security today is no longer a self-

sustaining enterprise. For the second straight year, Social Security paid out more than it took in, and that gap is expected to grow as more baby boomers retire.

Consider the staggering U.S. National Debt. It's fast approaching 17 trillion dollars. That's over $52,000 for every U.S. citizen, and over $145,000 for every U.S. taxpayer. But this doesn't begin to tell the story of the federal government's true liabilities. The actual liabilities of the federal government, including Social Security, Medicare, and federal employees' future retirement benefits…those promises we've already made exceed $86.8 trillion dollars. Add that to the roughly $17 trillion national debt and the United States federal government is over $100 trillion in the RED.

With Social Security already having to accommodate an unprecedented and overwhelming number of healthy, longer-living retirees, you may be able to count on a check, but will it be enough? You're being forced to assume more and more responsibility for your retirement. That explains why 81% of retirees felt a detailed Retirement Income Plan is "very important," yet only 18% actually had one.

Whether retirement is many years away, just a few years in the future or you're already retired, it's never too early or too late to take control of your retirement.

Here's the 6-step process we go through in creating a Retirement Income Analysis.

Step 1: We will ask you to articulate the retirement you've always envisioned, sharing your hopes, dreams and goals. What does it look like? What are you doing? Where are you doing it? And who are you doing it with? Does the retirement you envision include starting a business, working part time, moving and relocating, volunteer work, a new hobby, a vacation home, travel abroad or going back to school?

Step 2: We will take an inventory of all of your assets, savings and investments. In order to create a sustainable Retirement Income Plan, we'll be looking at your assets such as retirement plans, mutual funds, annuities, insurance, stock and bonds and a host of other assets.

Step 3: We'll calculate and get a pretty good idea of what your expenses in retirement will be. Some expenses will increase in retirement, while others may decrease, but we'll focus on areas such as housing, food, transportation, clothing and personal items, health care, entertainment, and travel to name a few.

Step 4: We'll total up your income from all sources in retirement. In retirement, you'll likely have a patchwork quilt of several sources of income from areas such as Social Security, retirement accounts, stocks, bonds and mutual funds, CDs, inheritance, annuities, and money market funds for starters.

Step 5: The previous 4 steps will help us determine in Step 5 if you have a projected retirement surplus or a shortfall. After knowing what you envision your retirement to be, looking at your assets, savings and investments, having calculated your income in retirement less your estimated expenses, we'll be able to tell you if you have a retirement shortfall…and if so, how big.

Step 6: If there is a shortfall, we'll lay out the various options available and explain the associated trade-offs with each one.

A Retirement Income Analysis is the easiest way for you to know with confidence if your Retirement Income Plan is sustainable. If you would like to have a no-cost, no-obligation, Retirement Income Analysis created just for you, contact our office at 610-478-9500.

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