



Q4 NEWSLETTER

Dear Clients and Colleagues:

In this newsletter, we review the Third Quarter 2019 market performance and discuss general rules of thumb for how much to save for retirement.

3Q 2019 Market Performance¹

US stocks once again outperformed International stocks and bonds continued their strong year-to-date return run. Although US Growth stocks have significantly outperformed US Value stocks and International stocks, in the month of September US Value stocks and Developed International stocks outperformed US Growth stocks and the S&P 500.

	3Q2019	YTD
S&P 500	1.7%	20.55%
MSCI EAFE (Dev.Int'l)	-1.07%	12.8%
MSCI EM (EmergingMrkt)	-4.25%	5.89%
BBgBarc US Agg Bnd	2.27%	8.52%

Trivia Answer

In the modern era, Serena Williams has won the most women's Grand Slam events (23) and Roger Federer has won the most men's Grand Slam events (20).

Retirement Planning – How Much Should I Be Saving?

I. Income Replacement Percentage (70-80%)

There is general consensus that pre-retirees should aim for 70-80% of gross income replacement in retirement. A three step process determines the annual savings needed to provide the required retirement cash flow: 1) the annual cash flow needed in retirement; 2) the capital (nest egg) needed to generate the required cash flow; and 3) the annual savings rate needed to build the capital to provide the retirement cash flow.² For example, a fifty-year-old couple with combined income of \$300,000 might shoot for 70% income replacement in retirement – i.e., \$210,000. At age 65, on an inflation adjusted basis (3%), that would mean

¹Indices are unmanaged, and one cannot invest directly in an index. Past performance is not a guarantee of future results. MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. MSCI EAFE Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets. Bloomberg Barclays U.S. Aggregate Bond Index represents the US investment-grade fixed-rate bond market. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. References to specific securities, asset classes and financial markets are for illustrative purposes only and do not constitute a solicitation, offer, or recommendation to purchase or sell a security.

² "National Savings Rate Guidelines for Individuals," Roger Ibbotson, et al., Journal of Financial Planning, April 2007.

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\$327,000 of annual retirement income. Assuming \$50,000 of combined social security income and a 7% rate of return, a sum of approximately \$5,000,000 would produce inflation adjusted income of \$327,000 for thirty years. Let's assume that the couple has \$1,500,000 of retirement assets at age 50. Assuming the same 7% rate of return, the couple would have to save about \$32,000 per year to meet their retirement goal.

Saving Percentage and Multiple Formulas

Other experts recommend a flat 15-20% retirement savings each year. One often cited study recommends that high income earners save 16% of their income each year.³ Fidelity suggests the following rules of thumb: "Aim to save at least 1x your salary by 30, 3x by 40, 6x by 50, 8x by 60, and 10x by 67."⁴ Aon Hewitt recommends a nest egg benchmark of eleven times final salary.⁵ Vanguard suggests starting out by contributing the amount required to receive a full match in an employer sponsored retirement plan, and then increasing savings by one percent each year to the 12-15% range.⁶

So, pick an appropriate annual savings amount, "pay yourself first," and remember that the savings rate and overall asset allocation are more important than trying to pick the highest returning investment assets.

³ "How Much Should People Save?", Alicia H. Munnell et al., Center for Retirement Research at Boston College, July 2014, Number 14-11.

⁴ <https://www.fidelity.com/viewpoints/retirement/how-much-do-i-need-to-retire?print=true>

⁵ [Aon.com/human-capital-consulting/thought-leadership/retirement/article-retirement-gap.jsp](https://aon.com/human-capital-consulting/thought-leadership/retirement/article-retirement-gap.jsp)

⁶ [Investor.vanguard.com/retirement/savings/how-much-to-save](https://investor.vanguard.com/retirement/savings/how-much-to-save)

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