



I feel like a Number

Calculating retirement funds

January 2008

Though I never thought a Bob Seger¹ song would be referenced in our esteemed *Fiscal Fitness* newsletter, his 1978 hit is relevant to this month's discussion: calculating adequate retirement funds. Increasingly, the primary concern of our clients is retirement funding. Basically, the first question that's asked is: "how much money do I need"? Doesn't really matter what the client's age or current net worth is, the premise remains the same. Let's face it, outside of a few wealth managers and CPA's, not many want to work indefinitely. Most plug away with the anticipation of that labor funding a comfortable retirement. So how much is enough?

Unfortunately, the answer isn't as simple as the question. Just plugging the existing investments with an assumed rate of return into a retirement software program is much too basic. There are many variables that need to be examined and communicated between spouses and the advisor. Meaningful conversations should take place before the first digit is entered. Let's examine a few.

- Existing assets – some is good; more is better
- Existing age and anticipated retirement age – the further apart these two; the better
- Family health histories & longevity – do you have a 115 year old aunt?
- Current ages of you and your spouse – statistically, women live 5 years longer than men²
- Annual savings rate – aim for at least 10-15%
- Realistic rate of return – highly variable as the last 10 years have taught us; stay conservative
- Annual retirement withdrawal rate – 3-4% is probably sustainable
- Inflation rates – healthcare costs are rising 8%+ annually
- Risk tolerance of client – conservative (lower rate of return) investors need to save more
- Anticipated retirement income tax rates – guesstimate at best
- Current and anticipated spending habits – tough (and painful) to change
- Current level of debt – will the mortgage & college funding be paid off soon?
- Other sources of retirement income – pensions, social security, sale of business, real estate
- Retirement goals – purchasing a second home, travel, leaving an inheritance, play more golf

The above should provide ample provocation for a lively retirement discussion. Questions should be met with honest answers. "I don't know" is a perfectly qualified response that merits further discussion and education. Once the questions have been sufficiently answered, retirement planning projections can be made. Just remember: retirement software (Monte Carlo is suggested) simulators are just that. It's a good idea to run a couple different scenarios tweaking the inputs just to cover "what if?" For example, the end result of assuming a 7% rate of return vs. 11% might ground a more affluent client in reality and not impose unwanted (or unnecessary) investment risk. Conversely, someone with more modest funds, invested in money markets earning 4%, may prematurely drain retirement funds. Secondarily, but no less important, is the assumption of a sustainable withdrawal rate. Regardless of the principal amount, taking out, say, 10% annually will exhaust a portfolio alarmingly fast.

Lastly, sometimes blind luck can play a major factor. Consider someone that retired and reallocated their portfolio in 1999 vs. a 63 year old employee of Enron. Such factors cannot be quantified; only referenced. We feel the more involved the retirement planning conversation, the more empowered the future retiree and secure the retirement. Give us a call; don't end up like Mr. Seger.

Fiscal Fitness is a publication of Houlihan Asset Management, LLC for the benefit of its clients and friends.
Houlihan Asset Management. Practical Advice. Prudent Investments.

¹Long-haired 1970's singer

²<https://www.cia.gov/library/publications/the-world-factbook/fields/2102.html>