

Guidance

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Retirees: The Spending Issue

Submitted by Mark Fried on Thu, 07/05/2012 - 3:00pm

The right retirement question is not whether you have enough money to retire at the income level you want. The right question is how willing you are to adjust your financing needs in retirement to fit what your assets are. Many people want to live on more money each retirement year than is practical.

Do I have enough to retire? This question has caused more sleepless nights, headaches, and stress than almost any financial question we face during our lifetime.

Retirement is a process of swapping one source of income for another. Many retirement books, blogs and gurus start by asking the question: how much do you need to live on?

Let's say that Mr. and Mrs. Smith want to live on \$65,000 per year in retirement. How would they know if they have enough money to do that?

Well, Mr. and Mrs. Smith, both 65, have \$1 million earning a 4% return. There is a 3% inflation rate and they have a life expectancy is 85.

Based on the typical on-line calculator or self-help book, their money will most likely run out at age 80. This is five years short of what they need to retire.

Based on this calculation, Mr. and Mrs. Smith do not have enough money to retire. They are left feeling powerless to control their own future.

When you depended on your job for income, did you tell your boss how much you wanted to live on or did he tell you how much he would pay you? Once you knew your salary, you and your family adjusted your lifestyle to fit your income.

SMART ADVICE



Why All Investors Need Good Advisors

By Larry Light, Editor-in-Chief

At AdviceIQ, we believe that everyone should have a financial advisor – a good one, vetted through our system to ensure that he or she has a clean background. Hiring an experienced, capable advisor gives you the services of someone who knows the landscape of investing and other necessary financial matters, such as the amount and type of insurance you should have, and how you should set up your estate.

Why should retirement be different? It isn't a question of: "Do I have enough to retire?" It is a question of: "How much will my savings, investments, Social Security and pension pay me for the rest of my life?"

Let's look at the same question, in a new way. How much will the Smiths' assets be able to pay them for the balance of their days?

The Smiths now know that they could retire on \$52,000 per year. They may choose not to retire or try to squeeze some additional cash flow out of their retirement savings. But now they are in control of their retirement.

Like anything else in our financial lives, retirement requires budgeting. You need to tote up your monthly outflow, for rent or a mortgage, for food and clothing, for travel and entertainment. Once you have a handle on that, you can plan.

Should your expected income not match what you want to spend, the obvious answer is to cut back your anticipated retirement spending. That is not easy to do, but it may be necessary.

The next time you are making a decision about retirement – whether you are 60 and trying to decide if you can retire now, or 50 trying to figure out how much longer you need to work – remember the question is not how long will your money last. It is how much will your savings and investments pay you.

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