# Do I Have Enough Income to Retire?


## Abstract

How much cash do I need?
Can I be sure my plan will work?



Scott Shellhamer
sshellhamer@warrenfinancial.com

## Do I Have Enough Income to Retire?

Can I retire at 55 with $300,000 in the bank? How far does $1 million go in retirement? Can I live on $500 a month when I retire?

Retiring with $300,000 … that's a tricky one. It could be a resounding "Yes" or an "absolutely not, are you crazy?" The correct answer depends entirely on how much your net spending is every month. And according to GoBankingRates.com, $1 million in retirement savings will last the average person between 12-19 years; and if you love Nicaragua then "YES!" … you can retire there on only $500 a month.

There are lots of ways to answer the important question of how much money you need in retirement, but the better the answer, the harder you are going to have to work for it. See below for a further explanation … but first, here are some of the boilerplate options you might have heard:

1. One rule of thumb is that you'll need 70% or 80% of your pre-retirement yearly salary to live comfortably (define comfortably?). You can replace it using a combination of savings, investments, Social Security and any other income sources such as part-time work, a pension, rental income, etc. That might be enough if you've paid off your mortgage and are in good health when you retire but if you have any large scale plans such as building your dream house, grand vacations or sending ALL the grandkids to college, then you might need to rethink the numbers.

2. Another rule of thumb: simply divide your desired retirement income by 4%. For example, if your perfect retirement salary is $40,000, divide it by 4%, or 0.04, and you get $1 million. If it's $80,000, divide it by 4%, and you get $2 million, etc. Or put a different way, it says you can withdraw 4% of your portfolio value each year in retirement without incurring a substantial risk of running out of money. Using this rule, for every $100,000 you have, you'd withdraw $4,000 a year.

3. Lastly, have 10 times your final salary in savings. Along with that, there are several milestones to help you get there: 1x salary by the time you are 30, 3x at 40, 6x at 50, 8x at 60 and again, 10x by your official retirement age.

These are just a few examples of different rules of thumb you can use to get an idea of what you will need to retire;  but as you can tell,  they might not be very accurate for your specific needs and all of these "shortcuts" don't seem to ask the most important question:  How much are you planning to spend?

## Setting up the Plan

Retiring successfully isn't just about how much money you have; that's just half the equation, like peanut butter without the jelly.  How much you plan on spending will give you a much more accurate picture of how much you need.  You could easily retire with $400,000 if your net spending is only $5000 per year, right?  Do you want to rely on a quick and simple calculator to make one of your most important life decisions?  Probably not.  Most people want a detailed plan that gives them peace of mind, no matter what is going on with the economy, politics or the capital markets.  You want a detailed plan that lets YOU determine what risks are acceptable and what risks are not.  So if you really want peace of mind, we perform an extensive retirement analysis for our customers … that way any scenario they can think of, we can program into the analysis to ensure that their retirement goals are met.  Afraid of inflation?  We can account for that.  How about a black swan event?  We already have that included.  What about determining if you can meet your retirement comfortably AND buy a new sportscar?  Yup … all in there.  So how does it work?  We'll get to that in a minute.  In the meantime, let's look at the basic information you will need to research and determine going forward:


1. Income & Savings – IRA's, Pension plans, rental income, part-time employment and even potential windfalls such as settlements, expected inheritances, etc.
2. Insurance – life insurance policies on you and/or your spouse
3. Social Security – go to www.ssa.gov and login to get an update of your potential payments based on your specific retirement age
4. Assets – Fair market value of your home, vacation home, personal property, etc.
5. Current and future expenses.  Premiums, living expenses, maintenance (car, home, etc.), medical expenses, charity planning and questions like, "How often will you upgrade your automobile?" "Can I put my grandkids through college?"

Once we have answers to the easy questions, then we take it to the next level:  What will you do when one spouse passes … do you keep your home or sell?  What amount of medical expenses can we assume you will incur?  Should you keep your long term care insurance?  These types of questions enable us to better focus on the details that may occur in your lifetime and how those decisions will affect you financially.  Once in place, we can run a detailed analysis of your retirement and predict the viability of your success.  The meaning of success is determined by you.  Some clients see success as leaving at least $1 million dollars to their heirs; others see it as spending all but the last dollar before they pass on and yet others want to make sure a certain charity or organization is helped by their generosity.  Whatever it may be, we can determine your probability of success.  But that isn't the end point; that's the starting point.  We can then model any decision you could dream of to determine financially whether it is feasible going forward. Thinking of renovating the kitchen? Or the whole house? Want to pay for the grandkids to go to college … all seven of them? Can you afford to go on a big vacation every year? Can you buy that quaint little vacation home on the beach? All these questions, and many more, can be modeled and answered to a degree of certainty going forward. This seems like a much better tool to use than just a rule of thumb?

## Creating a Custom Financial Plan

It is beginning to sound like we need to put together a budget, as we approach retirement, and through retirement, for the next 15-20 years or so. Then, after we complete the budget, we can stress test the budget to see our probability of not running out of money in retirement.

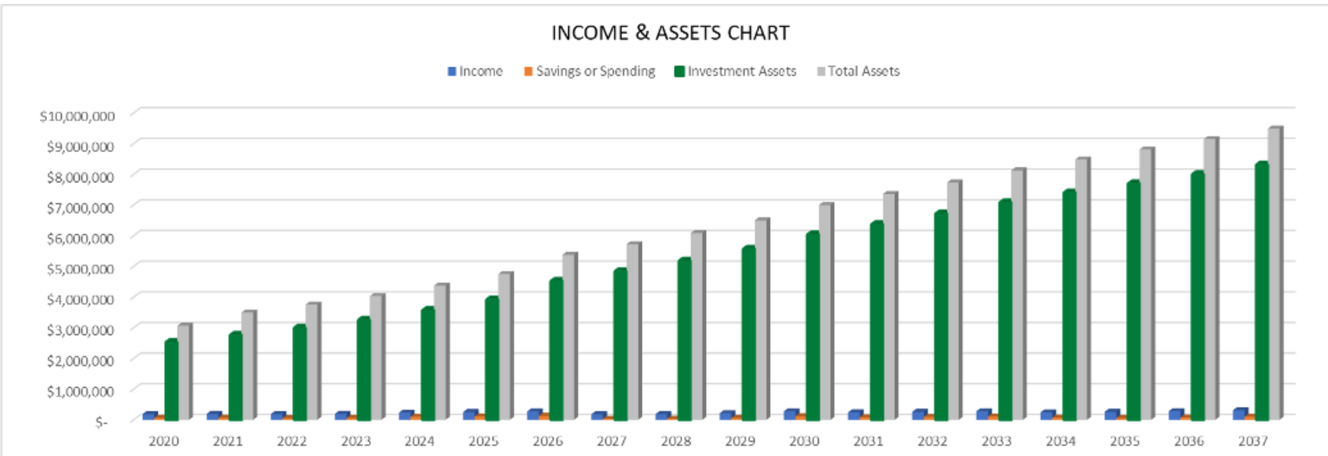
The budget begins with the current year, even if not yet retired, then proceeds through retirement.

| INCOME | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income Bill | $ 200,000 | $ 206,000 | $ 212,180 | $ 218,545 | $ 321,102 | $ 327,855 | $ 334,810 | $ 120,597 | $ 121,335 | $ 122,095 | $ 122,878 | $ 123,685 |
| Income Mary | $ 56,000 | $ 57,680 | $ 59,410 | $ 61,193 | $ 63,028 | $ 64,919 | $ 76,867 | $ 78,873 | $ 80,939 | $ 83,067 | $ 85,259 | $ 10,000 |
| Social Security Bill | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 32,659 | $ 33,312 | $ 33,979 |
| Social Security Mary | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 12,596 | $ 12,847 |
| IRA RMD - Bill | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 116,280 | $ 128,206 |
| IRA RMD - Mary | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| IRA BDA - Bill | $ 4,065 | $ 6,724 | $ 7,583 | $ 8,569 | $ 9,704 | $ 11,015 | $ 22,437 | $ 25,558 | $ 29,201 | $ 33,476 | $ 38,523 | $ 44,524 |
| IRA BDA - Mary | $ 35 | $ 43 | $ 48 | $ 54 | $ 60 | $ 68 | $ 77 | $ 86 | $ 98 | $ 111 | $ 127 | $ 144 |
| Pensions - Bill | $ - | $ - | $ - | $ - | $ - | $ 15,000 | $ 15,000 | $ 15,000 | $ 15,000 | $ 15,000 | $ 15,000 | $ 15,000 |
| Pensions - Mary | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 15,222 | $ 15,222 | $ 15,222 |
| Current Withdrawal from investments | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Net Income Fr Investment Real Estate | $ - | $ (30,600) | $ (31,212) | $ (31,836) | $ (32,473) | $ (33,122) | $ (33,785) | $ (34,461) | $ (35,150) | $ (35,853) | $ (36,570) | $ (37,301) |
| Cap Gains, Dividends, Interest | $ 20,021 | $ 28,481 | $ 31,074 | $ 33,440 | $ 36,076 | $ 40,236 | $ 45,093 | $ 50,808 | $ 53,428 | $ 56,274 | $ 60,053 | $ 66,014 |
| Pre-Tax Income | $ 280,121 | $ 268,328 | $ 279,083 | $ 289,964 | $ 397,497 | $ 425,971 | $ 460,499 | $ 256,462 | $ 264,852 | $ 322,053 | $ 462,680 | $ 412,319 |
| Retirement Savings - Bill | $ (24,000) | $ (24,000) | $ (24,000) | $ (24,000) | $ (24,000) | $ (24,000) | $ (24,000) | $ (24,000) | $ (24,000) | $ (24,000) | $ (24,000) | $ (24,000) |
| Retirement Savings - Mary | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| | | | | | | | | | | | | |
| Taxable Income | $ 256,121 | $ 244,328 | $ 255,083 | $ 265,964 | $ 373,497 | $ 401,971 | $ 436,499 | $ 232,462 | $ 240,852 | $ 298,053 | $ 438,680 | $ 388,319 |
| Less Taxes | $ 71,714 | $ 53,752 | $ 71,423 | $ 74,470 | $ 138,194 | $ 148,729 | $ 161,504 | $ 51,142 | $ 52,987 | $ 83,455 | $ 162,312 | $ 143,678 |
| After Tax Savings/Income | $ 184,407 | $ 190,576 | $ 183,660 | $ 191,494 | $ 235,303 | $ 253,241 | $ 274,994 | $ 181,320 | $ 187,864 | $ 214,598 | $ 276,368 | $ 244,641 |
| Sale (**After Tax**) of 2nd Home | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **NET INCOME** | $ 184,407 | $ 190,576 | $ 183,660 | $ 191,494 | $ 235,303 | $ 253,241 | $ 274,994 | $ 181,320 | $ 187,864 | $ 214,598 | $ 276,368 | $ 244,641 |
| | | | | | | | | | | | | |
| **EXPENSES** | | | | | | | | | | | | |
| Vacations | $ 12,000 | $ 12,360 | $ 12,731 | $ 13,113 | $ 13,506 | $ 13,911 | $ 14,329 | $ 14,758 | $ 15,201 | $ 15,657 | $ 16,127 | $ 16,611 |
| Mortgages | $ 60,000 | $ 72,500 | $ 72,500 | $ 72,500 | $ 72,500 | $ 72,500 | $ 12,500 | $ 12,500 | $ 12,500 | $ 12,500 | $ 12,500 | $ 12,500 |
| Property Taxes | $ 6,033 | $ 12,214 | $ 12,580 | $ 12,958 | $ 13,347 | $ 13,747 | $ 14,159 | $ 14,584 | $ 15,022 | $ 15,472 | $ 15,936 | $ 16,415 |
| Living Expenses (based on pre-retirement $150k/yr less Vaca less Prop Tax | $ 71,967 | $ 55,926 | $ 58,249 | $ 60,611 | $ 63,012 | $ 65,454 | $ 127,936 | $ 130,460 | $ 133,026 | $ 135,634 | $ 138,286 | $ 140,981 |
| Other Living Exp (college, car, home imprv, Healthcare, etc) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **Sub-total Expenses** | $ 150,000 | $ 153,000 | $ 156,060 | $ 159,181 | $ 162,365 | $ 165,612 | $ 168,924 | $ 172,303 | $ 175,749 | $ 179,264 | $ 182,849 | $ 186,506 |
| Net Savings or Spending | $ 34,407 | $ 37,576 | $ 27,600 | $ 32,313 | $ 72,939 | $ 87,629 | $ 106,070 | $ 9,017 | $ 12,115 | $ 35,334 | $ 93,519 | $ 58,135 |
| Retirement Savings/Spending - Bill | $ 24,000 | $ 24,000 | $ 24,000 | $ 24,000 | $ 24,000 | $ 24,000 | $ 24,000 | $ 24,000 | $ 24,000 | $ 24,000 | $ 24,000 | $ 24,000 |
| Retirement Savings/Spending - Mary | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **TOTAL SAVINGS OR SPENDING** | $ 58,407 | $ 61,576 | $ 51,600 | $ 56,313 | $ 96,939 | $ 111,629 | $ 130,070 | $ 33,017 | $ 36,115 | $ 59,334 | $ 117,519 | $ 82,135 |
| | | | | | | | | | | | | |
| Taxable Assets | $ 890,034 | $ 971,059 | $ 1,044,992 | $ 1,127,375 | $ 1,257,377 | $ 1,409,151 | $ 1,587,739 | $ 1,669,624 | $ 1,758,576 | $ 1,876,647 | $ 2,062,922 | $ 2,219,448 |
| Tax-Deferred Assets - Bill | $ 711,360 | $ 768,269 | $ 829,730 | $ 896,109 | $ 967,797 | $ 1,045,221 | $ 2,497,234 | $ 2,697,013 | $ 2,912,774 | $ 3,145,796 | $ 3,397,459 | $ 3,543,674 |
| Tax-Deferred Assets - Mary | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 254,147 | $ 274,479 |
| IRA BDA Assets - Bill | $ 104,000 | $ 107,930 | $ 109,302 | $ 109,856 | $ 109,390 | $ 107,661 | $ 312,378 | $ 313,137 | $ 310,585 | $ 303,895 | $ 292,053 | $ 273,812 |
| IRA BDA Assets - Mary | $ 1,050 | $ 1,096 | $ 1,138 | $ 1,177 | $ 1,214 | $ 1,246 | $ 1,272 | $ 1,291 | $ 1,301 | $ 1,299 | $ 1,283 | $ 1,249 |
| Company Retirement Plans (ex 401, Simp) | $ 818,121 | $ 909,491 | $ 1,008,170 | $ 1,114,744 | $ 1,229,843 | $ 1,354,150 | $ 120,007 | $ 155,528 | $ 193,890 | $ 235,321 | $ 25,920 | $ 53,914 |
| **TOTAL MARKET ASSETS** | $ 2,524,566 | $ 2,757,845 | $ 2,993,333 | $ 3,249,261 | $ 3,565,621 | $ 3,917,430 | $ 4,518,630 | $ 4,836,593 | $ 5,177,126 | $ 5,562,958 | $ 6,033,785 | $ 6,366,575 |
| | | | | | | | | | | | | |
| Spending as % of Market Assets | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| | | | | | | | | | | | | |
| Primary Home Net Equity | $ 542,000 | $ 558,260 | $ 575,008 | $ 592,258 | $ 610,026 | $ 628,327 | $ 647,176 | $ 666,592 | $ 686,589 | $ 707,187 | $ 728,403 | $ 750,255 |
| Investment RE Net Equity | $ - | $ 180,000 | $ 185,400 | $ 190,962 | $ 196,691 | $ 202,592 | $ 208,669 | $ 214,929 | $ 221,377 | $ 228,019 | $ 234,859 | $ 241,905 |
| **TOTAL ASSETS** | $ 3,066,566 | $ 3,496,105 | $ 3,753,740 | $ 4,032,481 | $ 4,372,338 | $ 4,748,348 | $ 5,374,476 | $ 5,718,114 | $ 6,085,093 | $ 6,498,164 | $ 6,997,047 | $ 7,358,735 |

In the above example, you can see how Bill's income drops dramatically in year 2027. That's because Bill retires in 2027, but Mary retires in 2031. Bill & Mary are spending about $150k/year and plan to continue to spend that much in retirement. They start out year 2020 with a total of about $2.2m in total assets including 401ks, IRAs, and brokerage accounts.

The budget is a great tool and creates the “expected” path through time.  Our program can run the budget out as far as necessary into the future.

More important, and easier to see, is the graph of all those budgetary numbers as shown below:




Again, the graph shows the “expected” path of Bill & Mary’s finances through time.  The important thing about the graph is that it is sloping upwards, which indicates that their assets are building, not running out.

But now, we need to stress test the “expected” path of Bill & Mary’s finances.  Because, honestly, while the stock market generates on “average” about 10%/year return, we all know that the actual returns are lumpy, 5% one year, -10% the next, +15% the next, etc.  What if there is a serious downturn, recession or even depression?  Will Bill & Mary still make it through retirement without running out of money?

We utilize a statistical tool called the monte carlo analysis to run the path through time, over and over.  In fact, we can run their numbers, hundreds, even thousands of times to see the probability that Bill & Mary have enough money and won’t run out in retirement.

After running Bill & Mary's numbers, thousands of times, we came up with 3 major scenarios, each with a sub-scenario as follows:

| STATISTICAL SCENARIOS | | | | |
|---|---|---|---|---|
| Scenario | Additional Assumptions | Failure Rate% | %Annual Return | $Avg ending assets |
| 1 | Asset alloc: 80/20% $170k<br>WF Effect Off | 26.1% | 8.9% | $8.5m |
| 1-A | Asset alloc: 80/20% $170k<br>WF Effect On | 8.4% | 11.1% | $15.1m |
| 2 | Asset alloc: 80/20% $150k<br>WF Effect Off | 17.2% | 9.0% | $9.5m |
| 2-A | Asset alloc: 80/20% $150k<br>WF Effect On | 4.5% | 11.2% | $16.9m |
| 3 | Asset alloc: 80/20% $140k<br>WF Effect Off | 8.5% | 9.2% | $10.4m |
| 3-A | Asset alloc: 80/20% $140k<br>WF Effect On | 2.3% | 11.1% | $18.4m |

The optimal scenario is 2-A where there is spending of $150k, yet the failure rate is only 4.5% meaning there is better than a 95% probability of success for Bill & Mary. The only difference between scenario 2 and scenario 2-A is that scenario 2-A has the Warren Financial effect turned "on". The idea here is that if Warren Financial is managing your money, we can do at least as well in the future as we have done in the past – more specifically, we can limit losses to about -20% no matter how bad the market gets, and it may be possible to outperform on the upside by 1% or so. Notice the impact of "active" Warren Financial management on the Failure Rate. With the WF Effect off in scenario 2, the failure rate soars to over 17%, but with the WF Effect On, the failure rate drops below 5%. The net effect on spending is that Bill & Mary can spend $10k more per year with WF managing their assets, then they would be able to otherwise. We believe the WF effect is a conservative estimate.

## How to start saving, no matter what age you are

No matter how you choose to save, the most important thing is to start. Contribute as much of your income as you can. If you have a 401(k), 403(b) or a 457 plan at work, contribute the maximum or at least as much as you can in order to get the full employer match, if that is an option. The contribution limit for 2020 is $19,500 if you are under 50 years of age ($26,000 if you are over.) If you don't have a retirement plan through work, the IRA contribution limit for 2020 is $6000 ($7000 if you are over 50.) Take advantage of this as much as you can, remembering that you won't pay taxes on any interest and principal until you start taking withdrawals. Another good tip is to have money taken from your paycheck or directly taken out of your checking account and sent straight to your retirement account. It's much easier not to spend money that you never see, right?

Also consider earmarking a portion of any increase in income to go towards retirement. It's always a good idea to increase your savings. You can do this as you receive a raise, at the beginning of every year or if you can, even every six months. It doesn't have to be a large amount but adding even an additional $100 a month will give you $6000 more at the end of 5 years, not even including the potential growth.

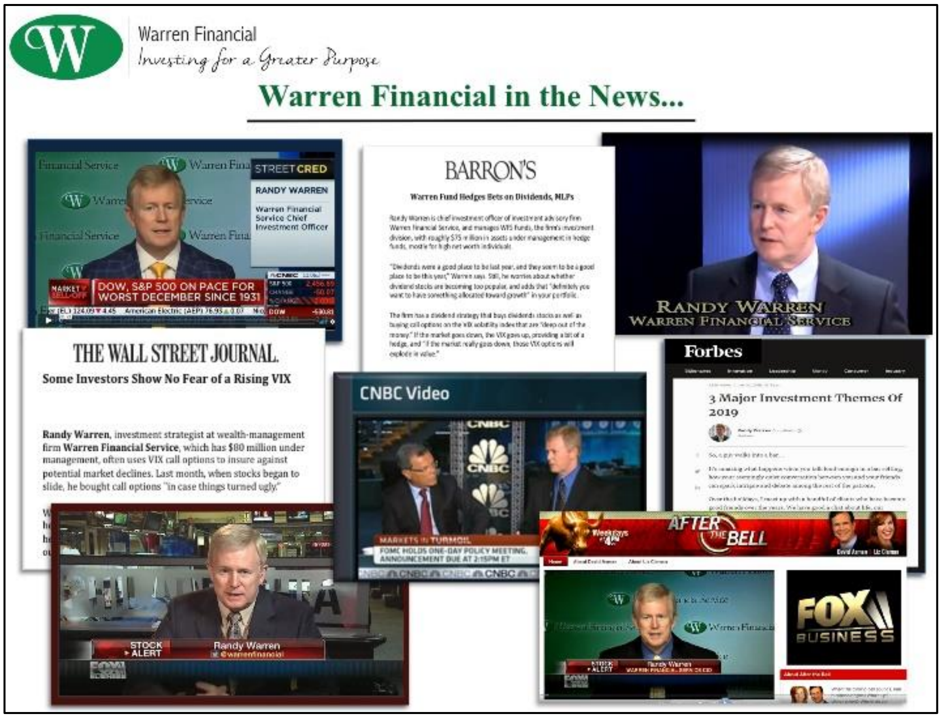
## Making your money work for you … investing

There's savings and then there's investing…two completely different mindsets. Savings is the act of amassing money whereas investing is making that money multiply and work for you. In other words, retirement planning isn't just about figuring out the right amount of money to save, it's also about discovering where the best place is to make that money work for you. There are all kinds of choices about where to put your money. In considering that, you will need to determine your risk tolerance. Risk tolerance is just a fancy phrase that means how much risk you are willing to take and how much reward you can expect to receive. Risk versus reward is not an exact science but rather a guide that helps you feel comfortable with the choices you have made. Call it the "sleep at night" factor. You should feel comfortable enough with your choices that you don't stay awake at night worrying about the returns you may or may not be getting. If you can do that, then the investment you've chosen is the right one for you. There is an alphabet soup of choices available for you, each having its advantages and disadvantages. We help our clients sift through the myriad of choices and help choose what's best for their circumstances. Again, this is an area too important to trust to rules of thumb or advice from your neighbor down the street.

## *The endgame*

So once you have a plan in place, one that you are comfortable with and confident that it passes the "stress test," you are done and can kick back and just relax, right? Well, not exactly and the reason why is because life happens. I'm sure you've heard that phrase before and it's appropriate here as well. For as much as we can do to analyze your situation, changes always happen. We can always revise the plan because of new information. Think of your retirement as you would an archer shooting at a target. If he's standing 100 yards away, it's much harder to hit that bullseye dead on. The closer he gets to the target, the more accurate he becomes. His sight is better, the wind is less of a factor and he can see the terrain much clearer. It is the same with your retirement; the closer you get, the more accurate information you will have and the better able you are to adjust the factors that can impact your final goal. Your retirement plan is not a "once and done" thing or a "set it and forget it" thing. Your retirement plan is a living document to help guide you so that your final decisions will be carried out just as you planned. We review with our clients at least every year or so and ask about any potential changes that have occurred or will be happening. Once we have new information, we rerun the analysis and see how that affects the goals. In the end, it is all about having the best possible plan in place.

Don’t forget to say, “**Hey Siri, download the Warren Financial app”** to get all the latest updates from Warren Financial.  For clients, the app allows you to earn loyalty points.

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Office: Philadelphia Area
Contact: Karen Copeland
Phone: 610.363.2000
7 Dowlin Forge Rd.
Exton, PA 19341

Office: Hilton Head
Contact: John O’Toole
Phone: 610.363.2000
2 Park Lane, Suite 202
Hilton Head Island, SC
29928

Office: Atlanta
Contact: Bob McCarty
Phone: 610.363.2000
Five Concourse Pkwy
Suite 3000
Atlanta, GA 30328