HOW MUCH WILL I NEED TO RETIRE?

Very often, when we meet with new clients, they ask a common question – HOW MUCH WILL I NEED TO RETIRE? When someone asks me this question, it reminds me of a commercial that used to be on TV in the late 2000s for a company called ING. In the commercial, there are a bunch of people going about their daily lives with large, orange numbers attached to them. The commercial states that they can help people come up with their number – the amount they will need for retirement. Despite there being many "rules of thumb" out there about how much is needed for retirement, there is not a one-size-fits-all answer.

In the ING commercial, every person or family has a different number. That is significant, because every financial situation is different. We have some clients who need millions of dollars to live on at retirement and others who need much less than $1 million. There are some people who do not even withdraw at all from their portfolios for living expenses. So, the question of what someone needs to save for retirement depends on a few main factors.

1. **How much do you need to spend?** ***(Most important!)*** Some people live very frugally, while others live more lavishly during retirement. Some people travel a lot more, while others reduce expenses by not commuting to their job daily. Budgeting for retirement is a very important exercise in determining what you will spend. The good thing is that spending can be adjusted over time during retirement depending on financial circumstances and investment performance.

2. **When do you plan to retire?** Retiring early can be a lot more challenging, especially if you retire prior to receiving Social Security and/or Medicare benefits. You will have to make up for income needs through withdrawals from assets until these benefits start. Some people will continue to work part-time or do some consulting as a subcontractor during retirement. That can help to defray the income needs. The longer you wait to take Social Security, the higher the benefit will be. It is an approximately 8% increase per year that you wait.

3. **How much do you have in fixed income sources?** Besides the obvious income source of Social Security, some people have pensions. There are still some very good pensions out there, like the PSERS pension for teachers in Pennsylvania. Fixed income sources can help to defray the need to take significant withdrawals from assets during retirement. The more you have in fixed income sources, the less you will need in investment assets for retirement.

While it is not a factor in how much to save initially for retirement, it is very important for you to have places to take distributions from if markets drop. Diversification of your portfolio is key during retirement if you are taking regular distributions for living expenses. You should make sure to diversify through owning stocks, bonds, alternative investments such as real estate and commodities, and cash positions. Being forced to sell investments that have lost money locks in losses and can strain a portfolio over time.

It is extremely important to have a financial plan in place that can help to answer these questions. It can create peace of mind to know that you are on track for retirement. If you are unsure about where you stand for retirement, please feel free to reach out!

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