When You Retire Without Enough

Start your "second act" with inadequate assets, and your vision of the future may be revised.

Provided by Rhonda Heineman CFP®

How much have you saved for retirement? Are you on pace to amass a retirement fund of $1 million by age 65? More than a few retirement counselors urge pre-retirees to strive for that goal. If you have $1 million in invested assets when you retire, you can withdraw 4% a year from your retirement funds and receive $40,000 in annual income to go along with Social Security benefits (in ballpark terms, about $30,000 per year for someone retiring from a long career). If your investment portfolio is properly diversified, you may be able to do this for 25-30 years without delving into assets elsewhere.[1]

Perhaps you are 20-25 years away from retiring. Factoring in inflation and medical costs, maybe you would prefer $80,000 in annual income plus Social Security at the time you retire. Strictly adhering to the 4% rule, you will need to save $2 million in retirement funds to satisfy that preference.[1]

There are many variables in retirement planning, but there are also two realities that are hard to dismiss. One, retiring with $1 million in invested assets may suffice in 2018, but not in the 2030s or 2040s, given how even moderate inflation whittles away purchasing power over time. Two, most Americans are saving too little for retirement: about 5% of their pay, according to research from the Federal Reserve Bank of St. Louis. Fifteen percent is a better goal.[1]

Fifteen percent? Really? Yes. Imagine a 30-year-old earning $40,000 annually who starts saving for retirement. She gets 3.8% raises each year until age 67; her investment portfolio earns 6% a year during that time frame. At a 5% savings rate, she would have close to $424,000 in her retirement account 37 years later; at a 15% savings rate, she would have about $1.3 million by age 67. From boosting her savings rate 10%, she ends up with three times as much in retirement assets.[1]

Now, what if you save too little for retirement? That implies some degree of compromise to your lifestyle, your dreams, or both. You may have seen your parents, grandparents, or neighbors make such compromises.

There is the 75-year-old who takes any job he can, no matter how unsatisfying or awkward, because he realizes he is within a few years of outliving his money. There is the small business owner entering her sixties with little or no savings (and no exit strategy) who doggedly resolves to work until she dies.

Perhaps you have seen the widow in her seventies who moves in with her son and his spouse out of financial desperation, exhibiting early signs of dementia and receiving only minimal Social Security benefits. Or the healthy and active couple in their sixties who retire years before their savings really allow, and who are chagrined to learn that their only solid hope of funding their retirement comes down to selling the home they have always loved and moving to a cheaper and less cosmopolitan area or a tiny condominium.

When you think of retirement, you probably do not think of "just getting by." That is no one's retirement dream. Sadly, that risks becoming reality for those who save too little for the future. Talk to a financial professional about what you have in mind for retirement: what you want your life to look like, what your living expenses could be like. From that conversation, you might get a glimpse of just how much you should be saving today for tomorrow.

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1 - investopedia.com/retirement/retirement-income-planning/ [6/7/18]