RETIREMENT: KNOW YOUR NUMBERS

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WEALTHMANAGEMENT
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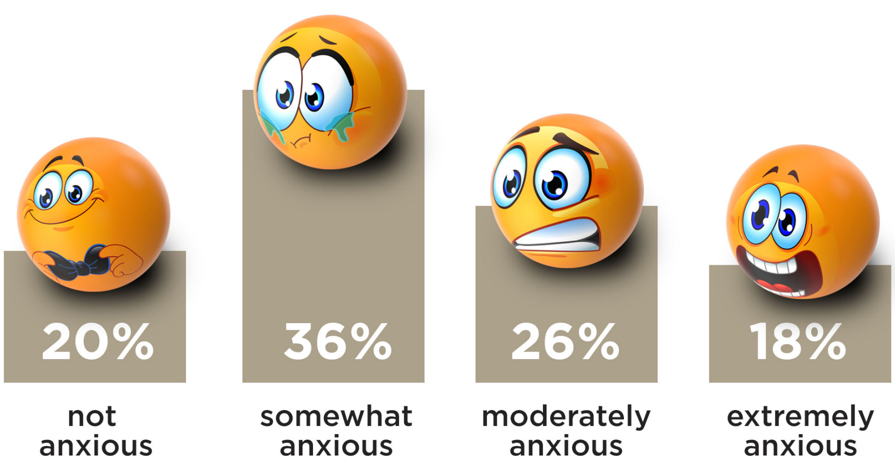
"Live long and prosper," is something we've all heard before and aspire to achieve. But when many Americans consider their potential life span, they're faced with a nagging concern: What happens if they live longer than their money? At WT Wealth Management we have many clients in their 80s and several in their 90s. Modern medicine and strong genetics can allow someone to live 20, 25 and even 30 years in retirement.

Unfortunately, many retirement savers have been conditioned to think only about saving a magical lump sum, say $1 million, from which they can withdraw money each month in retirement. Generally, too little attention is paid to also calculating how much actual income they'll need each month to live their expected retirement lifestyle. In fact, a recent survey of 3,119 adults by the Alliance for Lifetime Income, shows that a mere 28% of non-retired Americans have made an effort to determine their likely monthly income needs in retirement. (1) That planning gap can lead to an unfortunate situation where money saved will not last through retirement.

If pre-retirees don't know their income requirements, how will they know if they've saved enough to last throughout life? It's no wonder the Alliance for Lifetime Income survey shows that 80% of Americans are anxious about their retirement money and whether it will last through retirement.

How **anxious** are Americans about their retirement money?



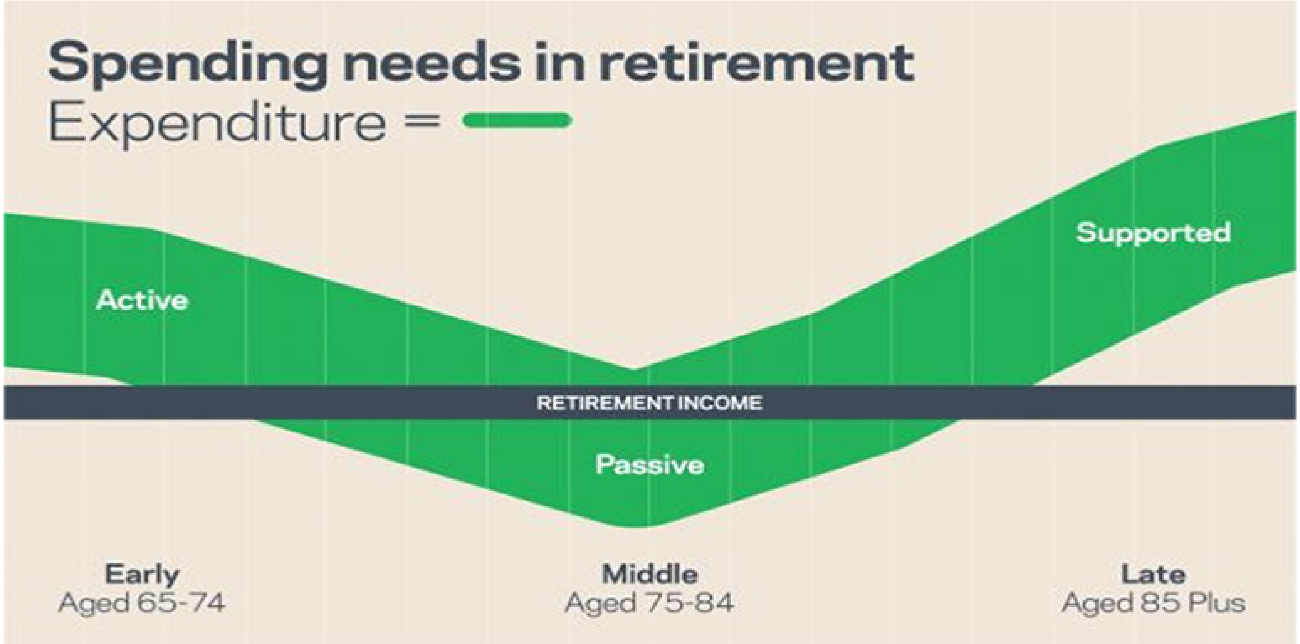
Source: Alliance for Lifetime Income

Your household is a business and you should produce and analyze with your advisor a household P&L (aka a budget) twice a year. Understand clearly how much comes in, and from where, and how much goes out, and on what. When you have more coming in than going out, your household is solvent and can fund retirement savings with the excess. When you have more going out than coming in, your household is insolvent and your retirement plans are hindered. Successful retirement planning is a conscious and intentional action and time is one of the plan's most critical variables. The sooner you start a conscious retirement plan, the greater potential you have to achieve your objective. The best time to start is a long time ago. The second best time is today.

Spending In Retirement

Many pre-retirees we have worked with believe they will be more adaptable to change and understand that some sacrifices will need to be made to make their money last during retirement.

Experience shows that retirement spending doesn't always follow a straight path. Instead it's more of a U-shaped curve: spend more money in the "active" years of retirement as you tackle bucket list items, gradually decrease spending in the "passive" years of retirement as age and health issues arise, and then increase spending again toward the "supported" end of our lives, primarily due to rising health care costs.



We each should be calculating our estimated discretionary and nondiscretionary expenses in retirement, all while anticipating living a longer life.

While spending on restaurants and travel are technically discretionary expenses, they are nevertheless a staple of retirement living for most Americans. After all, these are the experiences many retirees have worked their entire lives to enjoy. Simply eliminating discretionary expenses is not a sustainable retirement plan.

When it comes to non-discretionary spending, understanding the rising costs of health care is a critical factor. A July 2019 study sponsored by the National Association of Plan Advisors found that a healthy 65-year-old couple retiring in 2019 is projected to spend $369,000 in today's dollars ($551,000 in future dollars) on health care over their lifetime. In addition, expenses at age 85 are estimated to be 250% higher than at age 65.

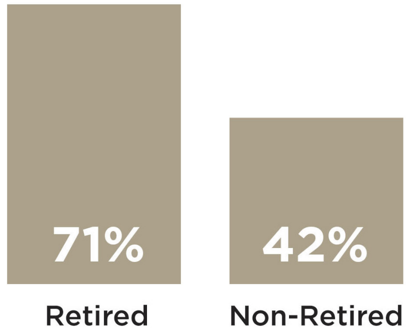
The study further estimates that a healthy 67-year-old retired couple is projected to spend 39% of their pre-tax Social Security benefit on health care in 2019 (based on an average couple's combined monthly Social Security benefit of $2,200). [2]

Other non-discretionary costs — housing, transportation and food, for example — have a significant impact on the cash flow of many retirees. Even if one's home is paid for, the costs of utilities, maintenance and unplanned home repairs are not insignificant factors to consider.

Developing an Income Plan

Only 42% of non-retired Americans believe their savings and sources of income will last their lifetime, according to the Protected Lifetime Income Index study by the Alliance for Lifetime Income. (1) This backs up statistics from the same study that reveal running out of money in retirement is the number one fear. And there's good reason for that concern; 22% of Americans have under $5,000 saved for retirement and 15% have nothing saved at all. [3]

Percentage of Americans who believe their retirement savings will **last a lifetime.**



Source: Alliance for Lifetime Income

The world our parents and grandparents knew has changed and today, 63% of Americans are unprotected for retirement, meaning they have no guaranteed source of protected lifetime income — such as a pension or annuity — other than Social Security. A recent World Economic Forum report estimates that a 65-year-old American today could outlive their retirement savings within nine years. [4]

One of the reasons many Americans experience an income shortfall in retirement is because, when preparing for retirement, they follow a retirement savings plan when they should be following a retirement income plan (and then saving to meet the requirements of that plan).

Regardless of how you have saved for retirement thus far, a first step in developing an income plan should be to make a realistic budget based on your financial obligations and lifestyle interests in retirement (discretionary and nondiscretionary). Then account for your various sources of income (e.g., social security, withdrawals from retirement savings, income producing assets, other forms of investment income, some type of work, etc.). You can find a Retirement Budget Template on our website. Since Social Security, on average, only covers about 40% of pre-retirement income, this income planning exercise will likely reveal a gap in guaranteed income for many of us. Equally important is considering the real possibility that you may live 20, 30 or more years in retirement.

Know how much you can safely withdraw from your retirement accounts

How long your retirement savings last depends on two primary factors: How much you've saved and how quickly you take money out of your accounts. The income plan introduced previously addresses how much you've saved. So let's talk now about how to intelligently withdraw from savings in retirement.

One common rule of thumb for withdrawals, called the 4% rule, says you can withdraw 4% of your account balance in your first year of retirement and then increase your withdrawal rate to allow for inflation each year. So a retiree with a $1 million portfolio could safely take out $40,000 in year one under this guideline. The 4% rule also doesn't respond to changes in your investment portfolio's value if short-term investments don't perform as expected and there isn't a sufficient time horizon to recover.

The safest withdrawal strategy is to only take out investment gains and leave your principal balance alone. Unfortunately, this approach doesn't work for many people because they simply don't have enough gains (either because the principal balance is too small or investment performance is lacking) to provide a reasonable income without withdrawing at least some portion of the principal balance.

Look for ways to cut costs as a senior

If you're already in retirement, or if you're addressing a savings gap in your retirement income plan, another solid option to make your savings last is to withdraw as little as you can from your retirement savings.
While you don't want to drastically compromise your quality of life, if you're worried you'll outlast your savings, then making some big changes could be necessary. And making those changes today is important in order to avoid taking out too much money too early, which makes it even harder for your savings to last.

Cost saving ideas to consider include moving to an area with a lower cost of living, downsizing to a smaller home or condo, or switching from a two-car to a one-car household. Each change could individually make a big difference in the amount you need to live on. When combined, the can become powerful.

You can take action today to make sure you don't outlive your savings

Whether you're already a senior or are still working and saving for retirement, you don't have to just accept the possibility you might outlive your savings. You can make a conscious and intentional plan for the future and then also make the concrete changes necessary to ensure your money lasts longer. The key is to act as soon as you know you'll have a shortfall, because the longer you wait, the less savings you'll be able to accumulate or retain.

WT Wealth Management has an iRetire Tool that can help us understand your current position. Identifying how to make up retirement funding shortfalls is simple as there are only three inputs: working longer, save more or invest more aggressively. The hard part is implementing the plan. We encourage you to sit with your financial advisor and start the game plan for the retirement lifestyle you have always envisioned.

SOURCES

(1) *https://fb53c249d56cbdc517b3-a0041c3964186a9714763246bc825d85.ssl.cf1.rackcdn.com/Alliance-Protected-Lifetime-Income-Index-Study.pdf*

(2) *https://retirementplanadvisors.com/about/news/investor-news/*

(3) *https://www.bankrate.com/banking/savings/financial-security-january-2019/*

(4) *https://www.weforum.org/agenda/2019/06/retirees-will-outlive-their-savings-by-a-decade/*

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