How Much $ Is Enough?

By Evelyn Preston

We've seen the bumper sticker on a fancy car... *I'm spending my children's inheritance*... as well as other jokes about seniors and money. But having enough money for retirement is no joke to over a third of Americans age 18 and over and 14% of them fear running out of funds completely.

"How long will I live?" is the unknown biggie; "How much should I save?" is the obvious but elusive equation. Both are endless subjects with tons of available advice. So many factors: market forces, cost of living, health care coverage, interest rates and much more will figure into any formula for not outlasting our money. Where to start?

I suggest that potential retirees, whether planning on their own or paying a professional, embrace a few simple strategies to increase their solvency and decrease their anxiety.

1) Make a retirement budget—Employee Benefits Research Institute and other groups find that most people underestimate their actual retirement expenses and real costs are often 20% more than expected—think travel, health coverage, home maintenance, etc. Major mutual funds (Fidelity, Vanguard, Black Rock, etc.) all have retirement calculators that can pinpoint the many areas retirees need to address.

2) Diversify financial portfolio—We're all living longer so plan ahead for sustainable long-term growth. Stocks, bonds, cash, mutual funds, ETFs and some insurance programs can all contribute to a steady 4% -6% withdrawal of savings during retirement. In difficult economic environments, each investment class can lie fallow for a period of time to recoup and react to market fluxes.

3) Remember taxes—Investments, whether inside qualified plans (IRAs, 401Ks, 403bs, etc.) or not, are subject to capital gains or ordinary income tax when tapped for retirement living. How surprised I was when my tax-efficient mutual fund's sudden large payouts pushed me into a higher tax bracket these last few years as the managers sold off long term winners—my problem of having too many eggs in too few (mutual funds) baskets. Plug in all anticipated taxes to any budget plan.

4) Understand Social Security options—Work longer, start later, co-ordinate with spousal benefits and dove-tail this government "pension" with personal investments. However, be aware of possible changes that may lower future benefits like cost-of-living decreases or increased Medicare coverage.

5) Black Swan events—Expect the unexpected in life: government rules and regs, market corrections, inflation, health setbacks, family crisis and more. When outside forces collide with our own problems (e.g.: retiring during an economic slump), there can be a perfect storm that could impact carefully laid plans. Opt for an emergency fund.

6) Assess personal "risk tolerance"—This overused yet underrated phrase proves how we honest-to-gosh, deep-down feel about "all this money stuff." Although retirement requires continued growth, how much uncertainty can we stand? Cross fingers or shift to more conservative "value funds; buy more bonds or get guaranteed-for-life income programs? Immediate annuities and long term health insurance may be THE perfect "gift" to see us through the inevitable glitches and gyrations in life (and finances), whether we blow out 100 candles or not.

Besides the well-known advice of buy low-sell high, another well-worn adage that pertains to everyone is that the consequences of a financial loss affect us much more than the rewards of a financial gain. The older we get and the less time we have to recoup losses, the more we want to keep our money safe, growing and accessible for ourselves and our heirs.

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