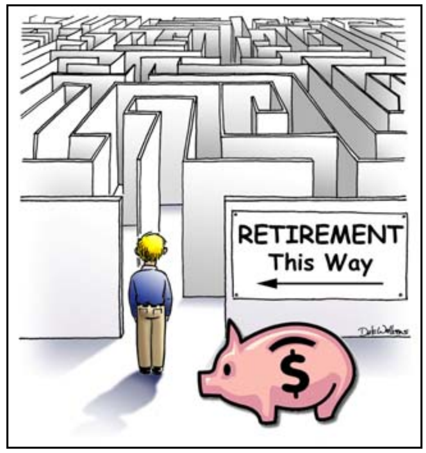
"When Can I Afford to Retire?"

Navigating the Retirement Maze



The Golden Years… the goal that you've aimed towards all of your working life. Travel, relaxation, golf, spending more time with the grandkids. No boss, no more commute, no need to get up early five days a week.

Sounds perfect. So when can you start? More to the point: When can you afford to start? If you plan to live a long, adequately funded retirement, you'd better have a nest egg that can support it. A recent survey conducted by Wells Fargo found that most respondents expected to work well into their retirement years, and one-quarter said that they would need to work until age 80, prompting columnists to proclaim that "80 is the new 65."

Few of us aspire to delay retirement. So how much do you really need in order to retire and maintain a comparable lifestyle? More to the point: How much do you need to be socking away each year in order to meet your target retirement date?

Estimates from the Experts

Several organizations took a look at this issue, and came up with some useful results. Hewitt Associates, in their Retirement Income Adequacy at Large Companies study (2010), determined that a retiree needs to have 15.7 times their annual pre-retirement income in order to retire at 65 and support 20-25 years of retirement at a lifestyle comparable to pre-retirement. They assumed that Social Security will cover 30% of this, resulting in a savings goal of 11 times pre-retirement income. If your final salary was $110,000, then you should have $1.2 million put away. If you plan to live beyond 85 – and if you're healthy, it's reasonable to assume that you will – then that 11x figure needs to be increased.

Russell Research (2011) took a slightly different approach, and concluded that if you wanted to replace 80% of your salary with a high probability of success, and assuming that Social Security will cover one-third of this, then you consistently needed to put away 15% of your income every year. For higher income individuals where Social Security represents a smaller percentage of their retirement income, annual retirement savings should be 20% or more.

Time is Your Friend (or Not…)

The obvious conclusion is that it's better to start early and save aggressively. But let's assume that, like most individuals, you've put this off to where you now have fewer years to your intended retirement date. What is it going to take to hit that goal?

In their book "Yes, You Can Still Retire Comfortably" (2006), Phil De Muth and Ben Stein developed tables of recommended savings rates depending upon your years to retirement at age 70, and how much you have saved up thus far. For example, the 50-year old who has saved 1x their annual salary thus far would need to put away one-fourth (26%) of their income for the next twenty years. Contrast that with the 40-year old who has saved the same amount (1x their salary), but only needs to stash away one-tenth (10%) of their income each year.

Advice for Procrastinators

So if you find yourself in the position of playing nest egg catch-up, here are a few thoughts:

- Savings rates required to catch up may seem daunting, but aren't impossible. Look at your current expenses and decide where you can cut back (skiing? dining out?) in order to save more aggressively.
- Your kids can borrow for college or to buy a house. You can't borrow for retirement.
- Do NOT try to make up for lost time getting more aggressive with your portfolio, unless you like saying "Would you like fries with your order?"
- Make sure that you time your Social Security filings to maximize your lifetime benefits. (See my November 2011 column "Social Security: Timing Is Everything.")

Retirement is an expensive proposition, given our likely longevity, expected health care costs, and retirement aspirations. Filet mignon or "hamburger helper"? It all depends on your savings diligence.

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