

Financially Speaking

With Trisha Arndt, CFP®

Being Prepared is Key to a Comfortable Retirement

With two kids, a round the clock career and hectic schedule I have just learned that some things have to give. In my case, all of my great intentions about packing a lunch almost always fall prey to all of the other demands of my life. Instead I frequent several of the local area restaurants (its probably a bad sign when the waitress can put my order in without actually having to talk to me) and the deli at Miller's.

One day recently I was out getting lunch in town and I observed an individual working that I suspect was a few years past what social security would consider full retirement age. Not surprisingly, I tend to be someone who is empathetic to the financial situation of those around me so I immediately started thinking about why that person was working. Was it because they wanted to keep active? Because they enjoyed the contact with people and this was a good way to get it? Or, were they working out of a financial necessity? I really hope it was one of the first two.

Having helped people with retirement planning for close to fifteen years I know that often the biggest obstacles to a financially comfortable retirement that people face are a lack of planning and underestimating how much money will be needed.

Let's look at some recent statistics.

On March 9th the Employee Benefit Research Institute released their most recent Retirement Confidence Survey. This is a random, nationally representative survey of 1,153 individuals over the age of 25. Some of the findings in the survey were shocking, even to me.

Of those surveyed, more than half (54%) reported that the total value of their household's savings and investments, excluding the value of their primary home and any defined benefit plan, was less than \$25,000. About half of those (27% of the total number surveyed) had less than \$1,000 in savings.

Not surprising given the numbers above, less than half of those surveyed (46%) reported that they and/or their spouse have made any attempt to calculate how much they will need to have saved by the time they retire to support the lifestyle they want.

The reality is that most people I have seen want to have at least the same level of comfort in retirement as they had while working. And, with advances in health care, people continue to live longer, more active lives. The days of retiring at 65 and having to plan for ten years of retirement income are long gone. Today people realistically should be thinking of 20 to 30 years or more.

I recently read about a case where a couple decided to retire at age 65. They had been living on approximately \$50,000 a year while working, were expecting just over \$2000 a month in social security and had accumulated around \$100,000 in retirement savings. They thought they were in great shape – after all \$100,000 is a lot of money, way more than their parent's ever had.

Unfortunately, their story didn't end so well.

Within just a few years they had completely depleted their retirement savings and had to make some very tough decisions about drastically scaling back their lifestyle or going back to work. They couldn't understand why because they had made no big purchases or lifestyle changes. They finally decided to seek advice from a financial planner – who could not provide a silver bullet but instead could simply help them evaluate their unappealing options.

Let's do some basic math together. If you are living on spendable, take home income of \$50,000 a year while working chances are you will spend the same – or more – in retirement. If you receive half of that in social security benefits that means you have to replace the other half from your savings. If you start with \$100,000 and take \$25,000 a year from it (not accounting for any investment performance or tax implications) you will be out of money in just 4 years.

Now certainly there is the possibility that investment earnings could help stretch that money longer but your expectations for investment performance have to be realistic (a topic for another day) – and should be well thought out.

The bottom line is that failing to plan can lead to heart break so take some time to do it, no matter what your age. Many company retirement plans offer basic retirement savings tools or there are tons available for free on-line. If you want help or more sophisticated planning consider hiring a competent financial planner to assist you. A little planning today can save a lot of frustration down the road.

Trisha Arndt, CFP®, is president of Wealth Strategies of Wisconsin Ltd, 535 Half Mile Road, Ste 5B, Verona, 848-2400. Securities and Investment Advisory Services offered through Commonwealth Financial Network, member FINRA/SIPC, a registered investment adviser