

# Are you ready to retire?

You have done pretty well for yourself with all the work that you've put in over the years. The kids are through college and launched on careers of their own. You've built up substantial balances in your retirement plans, put aside a good-sized rainy day fund and insured yourself against every conceivable catastrophe.

You have dreams and aspirations for life beyond the daily grind. Now you suspect that you are ready to enter that next phase of your life, but you want to be sure that you have the resources to live it as you intend.

Perhaps it is time to do some serious thinking and planning about retirement.

## **Consider your costs.**

You will have to begin with a hardheaded estimate of your retirement expenses. Although many sources tell you that you can maintain your lifestyle with 60% to 80% of your pre-retirement income, the reality can differ greatly with the style of life that you have in mind. If you plan to relocate to a less costly community and spend your days catching up on your reading at the local library, your expenses may be modest. On the other hand, a year of serious globe-trotting or shuttling between summer and winter retreats easily can consume more than your current income.

Will you still be making mortgage payments? Do you plan to help with the expenses of a grandchild's education? Does family history suggest that you will need to contend with chronic illness, or live far beyond your allotted three-score years and ten? Do you intend perchance to do some consulting after retirement? Do you have a philanthropic urge? All factors of this sort should figure into your income requirements. Nor should you forget the income tax that will be due unless that income is derived from tax-exempt municipal bonds, Roth IRA withdrawals or the nontaxable portion of your Social Security benefit.

## **Don't forget inflation.**

Then you will have to factor in a presumed rate of inflation throughout your retirement. Even at today's moderate rates, inflation gradually will boost the amount that you will need to finance your intended lifestyle. Retiring today at age 60, you may be looking forward to 30 or more years of retirement. Just 3% inflation will reduce the purchasing power of your dollar by 59 cents over the course of 30 years. The capital that you have available to support your retirement must produce income enough not just to support you at the level of your needs for the first year, but also to increase each year to cover rising costs.

The accompanying table shows how long a nest egg can continue providing a stream of income rising by 3% each year under various earnings assumptions.

## Ready?

The question is whether your resources will support you through the retirement that you envision with a comfortable margin of safety. It's not rocket science, but the calculation does call for a number of facts, suppositions and estimates. You could crunch the numbers yourself if you are handy with a spreadsheet or use one of the retirement planning aids provided in financial books and magazines, software programs and Internet sites. On the other hand, if you would like some help with the arithmetic, we would, of course, be happy to provide it.

Either way, you will start by toting up your current and expected assets. Your current balances in retirement accounts as well as unsheltered savings and investments that you do not intend for more immediate use, form the basis of your nest egg. Factor in your projected Social Security and pension benefits. An expected inheritance or a judgment due you can add to the total. Home equity also can contribute if you intend to move to a less expensive home.

With your projected expenses and available resources all that is needed to complete the calculation are assumptions as to (1) the rate of inflation, (2) the expected return on your investments and (3) the number of years that you will spend in retirement. Because you cannot be sure of any of these factors nor of tax rates or the state of your health in the future, it is prudent to be conservative in your estimates.

As our table demonstrates, with large enough returns, withdrawals kept small enough, and a reasonable rate of inflation, a given nest egg will last for a long, long time.

Percentage of nest egg withdrawn in the first year *	At these average rates of return, capital will provide withdrawals rising by 3% each year for this number of years . . .			
	5%	7%	9%	11%
3%	52	!	!	!
4%	34	72	!	!
5%	25	36	!	!
6%	20	26	44	!
7%	17	20	27	!
8%	14	17	21	31
9%	12	14	17	22
10%	11	12	14	17

**\*Total withdrawal made at beginning of the year.  
! Money does not diminish.**