CHOOSE YOUR FUTURE TODAY

Why Does It Take So Much Money to Retire Successfully?

You may be wondering why you need to save so much money to retire successfully. The reason is income replacement.

Income Replacement and How It Works

The basic concept of income replacement is funding your lifestyle when you no longer have a paycheck. Your savings need to generate enough income to support you the rest of your retired life. For example, if you retire at age 65 and expect to live 25 years from that point, financial analysts recommend that you withdraw no more than 4% of your savings per year for the first 5 years. Here's how it works:

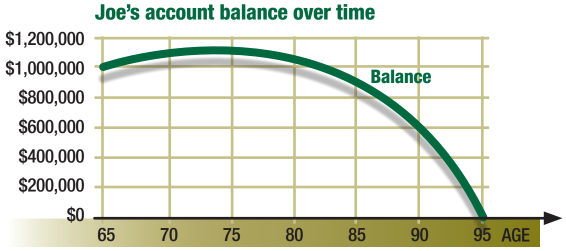
Profile: Joe, Age 65 – Annual Numbers

Joe lives in a condo that's paid off. He is in good health, wants to enjoy golf and travel, and anticipates having a long and active retirement.

Pay right before Joe retired	$65,000
Post-retirement basic expenses budget, plus $5,000 "fun" budget	$55,000
Social Security benefits	$15,000
Amount Joe needs to withdraw per year	**$40,000**
Amount that Joe should have to withdraw from	**$1,000,000**

Assuming that Joe has saved $1 million, he draws $40,000 out of his account during the first year of retirement. His remaining balance stays invested. Because he's newly retired, he invests somewhat aggressively. Earning a 6% rate of return, Joe would have $1,017,600 in his account.

Early in his retirement, the growth in Joe's account will outpace his withdrawals. Over time, that will change as his rate of return drops gradually as he invests more conservatively due to his shorter time horizon. The amount he needs per year also increases due to higher medical expenses.



Along his retirement journey, Joe will adjust his investment strategy based on his time horizon, income needs, and surprises that come along like health challenges. An adequate balance at retirement and a well-managed investment strategy that changes with age will increase the odds that Joe's savings will last him the rest of his life. Ideally, he enjoys a great meal in his own home the night before he dies, and the check to the undertaker bounces.

You Need a Mountain of Cash and You Have a Molehill

These strategies can help you make the most of your savings.

1. **Work until you're 70.** You'll still have many years to enjoy retirement.
2. **Don't take Social Security until you're 70.** The difference in the monthly benefit you'll receive if you wait can be almost double!
3. **Take care of your health to take care of your wealth.** Out-of-pocket costs for health care in retirement can exceed a half million dollars. Also, Medicare doesn't cover nursing home costs.
4. **Develop a support structure.** Having support for rides and grocery trips saves you a bundle.
5. **Re-fi to a 15-year mortgage.** Take advantage of good interest rates to pay off your mortgage before you retire.
6. **Investigate alternative living arrangements.** Multi-generational family living or roommates might be good for both your wallet and your sense of belonging if you'll be alone in retirement.

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