



4321 Northview Drive, Bowie, MD 20716

www.widmannfinancial.com

(301) 262-2919 (phone) • (301) 262-3481 (fax)

Securities Offered Through Commonwealth Financial Network, member FINRA/SIPC, a Registered Investment Adviser. Advisory services and fixed insurance products and services offered through Widmann Financial Services are separate and unrelated to Commonwealth.

# Financial Briefs

JANUARY 2019

## How Much Do You Really Need to Retire?

There is no one golden amount to aim for in retirement. Everyone is unique and specific retirement plans depend on factors that are more complex than a generic one-size-fits-all plan can successfully navigate. However, when deciding where to start when it comes to saving for retirement, there are a few common goals people can keep in mind.

### **Goal #1: Saving \$1 million (for a \$40,000 per year income over 30 years of retirement)**

Depending on where you live and what activities you plan for your retirement, a goal of \$1 million may or may not actually meet your needs. While it seems like a large amount, remember that you need it to last for the entirety of your retirement. In some states, the cost of living is so high that \$1 million won't even sustain you for 20 years into your retirement.

In 2017, GOBankingRates determined the average total expenditures for people 65 and older (including groceries, housing, utilities, transportation, and healthcare) and multiplied that amount by the cost of living index of each state in the U.S. They then used that amount to determine how long a theoretical \$1 million retirement fund would last in each state. The four most ex-

pensive states were Hawaii (\$1 million would last just under 12 years), California (16 years, 5 months), Alaska (17 years), and New York (17 years, 1 month). To stretch your retirement dollars further, one would need to consider residing in one of

these four cheapest states: Mississippi (\$1 million would last 26 years and 4 months), Arkansas (25 years, 6 months), Oklahoma (25 years, 2 months), or Michigan (25 years).

If you plan on retiring in the  
Continued on page 2

## Retirement-Planning Assumptions

To enjoy your retirement without financial worries, make sure you have enough money saved when you retire. However, that calculation can be a daunting task, since a variety of factors affect your answer, and inaccurate estimates for any factor can leave you with way too little in savings. Some of the more significant factors include:

### **What percentage of your preretirement income will you need?**

You can find various rules of thumb indicating you need anywhere from 70% to over 100% of your preretirement income. On the surface, it seems like you should need less than 100% of your income. After all, you won't have any work-related expenses, such as clothing, lunch, or commuting costs. But look carefully at your current expenses and how you plan to spend your retirement before deciding how much you'll need. If you pay off your mortgage, stay in good health, live in a city with a low cost of living, and en-

gage in inexpensive hobbies, then you might need less than 100% of your income. However, if you travel extensively, pay for health insurance, and maintain significant debt levels, even 100% of your income may not be enough. You'll need to take a close look at your expenses.

**When will you retire?** Your retirement date determines how long you have to save. You want to make sure your retirement savings and other income sources, such as Social Security and pension benefits, will support you for what could be a very lengthy retirement. Even extending your retirement age by a couple of years can significantly affect the ultimate amount you'll need.

**How long will you live?** Today, the average life expectancy of a 65-year-old man is 81 and of a 65-year-old woman is 84 (Source: Social Security Administration). Most people look at average life

Continued on page 3

Copyright © Integrated Concepts 2019. Some articles in this newsletter were prepared by Integrated Concepts, a separate, nonaffiliated business entity. This newsletter intends to offer factual and up-to-date information on the subjects discussed, but should not be regarded as a complete analysis of these subjects. The appropriate professional advisers should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from errors or omissions or reliance on or use of this material.

## How Much?

Continued from page 1

same state in which you live today, make sure you check to see how much your cost of living would be for your specific situation. Remember you will also have Social Security to tap into, but that amount will likely not make up the difference in the most expensive states. Likewise, if you are still carrying a mortgage into retirement or want to go on expensive vacations, plan on saving beyond the \$1 million mark.

### Goal #2: Replacing 70%–80% of preretirement income

Income replacement rates refer to the percentage of your preretirement income you would need to replace to maintain a similar standard of living once you retire. The general rule of thumb is that most people will need 70%–80%, but this is not always an accurate assessment, since it assumes that expenses decrease after retirement. In truth, many people find that their expenses increase.

Retirees are no longer contributing to a 401(k) plan or commuting to work, but they sign up for classes and outings, go on indulgent vacations, and often contribute to their grandchildren's school trips and college funds. Many of the things you dream of doing once you retire cost money, and that is why those looking forward to an active retirement should try to get to a replacement rate closer to 100% of their preretirement income.

### Goal #3: Saving 10%–15% of your current income

If you start saving 10% of your income at age 25, you could retire at 65 with a 70% replacement rate. Most twenty-somethings now are struggling with a high amount of student loan debt, so it can be difficult for them to put that 10% toward retirement instead of paying down loans. But consider this: if you wait until later to start saving for retirement, the squeeze on your paycheck will be much, much tighter. A 45-year-old who wants to retire at 65 with a 70% replacement rate will

## Avoid This Mistake

Finding a way to live decades in retirement without worrying about running out of money can seem like an overwhelming task. That goal depends on many variables, including life expectancy, retirement age, lifetime earnings, retirement expenses, retirement income sources, investment rates of return, and future inflation. If you're wrong on even one of those variables, funding your retirement could be in danger.

With all the potential for missteps, what is the one mistake you want to avoid at all costs? Dipping into your retirement savings. Unfortunately, since the funds in your 401(k) plan or individual retirement account (IRA) belong to you, they often seem like a tempting place to get funds needed for other purposes.

Tax laws don't help, since they often provide tax-advantaged ways for you to access those funds. Loans from 401(k) plans are not taxable events. When leaving an employer, you can withdraw money from your 401(k) plan (you will have to pay income taxes and possibly a 10% early withdrawal penalty). Contributions to Roth IRAs can be withdrawn at any time with no tax consequences. Withdrawals from

traditional IRAs before the age of 59½ can be made under certain circumstances, such as to purchase a home or pay for a child's college education, without paying the 10% income tax penalty.

Saving for retirement is a difficult task for most people, without making it more difficult by using retirement funds for other purposes. Even if the amount seems small, don't withdraw funds from your retirement account. While it probably won't add significantly to your lifestyle now, it can grow to significant sums over the long term. For instance, assume you have \$10,000 in your 401(k) plan. If you withdraw the funds and are in the 22% tax bracket, you'll have \$6,800 left after paying income taxes and the 10% federal tax penalty. Keep the funds invested earning 8% annually on a tax-deferred basis, and your funds could grow to \$68,426 after 30 years before paying any income taxes. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.)*

No matter how much you think you need the money now, don't touch your retirement funds for anything other than retirement. Please call if you'd like to discuss this in more detail. ■■■

need to save more than a quarter of their income to reach that mark. The majority of people have a mortgage and family to provide for at that point, so aggressive saving is often not realistic.

The younger you start, the easier it is — both in regard to the percentage you need to put away and in developing a habit of saving for your future. A 10%–15% saving target will lay down a solid foundation that will set you up for growth and success later on.

### Goal #4: Your customized retirement number

Just as your retirement goal must be realistic for your resident

state and the activities you want to pursue, it truly must be designed with your desired standard of living in mind. This will need to include anything you will ultimately want to leave for your children or for charity in addition to providing for potential health problems you or your spouse could face. That is why common goals are really just a starting point: the nitty-gritty details depend on what is achievable for you and how much it will take for the retirement you want.

Please call if you'd like to discuss how much you'll need for retirement in more detail. ■■■

## Planning Assumptions

Continued from page 1

expectancies when estimating, but average life expectancy means you have a 50% chance of living beyond that age and a 50% chance of dying before that age. Since you can't be sure which will apply to you, it's typically better to assume you'll live at least a few years past that age. When deciding how many years to add, consider your health as well as how long other family members have lived.

**What long-term rate of return do you expect to earn on investments?** A few years ago, many retirement plans were calculated using fairly high rates of return. Those high returns don't look so assured now. At a minimum, make sure your expectations are based on average returns over a very long period. You might even want to be more conservative, assuming a rate of return lower than long-term averages suggest. Even a small difference in your estimated and actual rate of return can make a big difference in your ultimate savings.

**Have you considered inflation?** Even modest levels of inflation can significantly impact the purchasing power of your money over long time periods. For instance, after 30 years of just 2% inflation, your portfolio's purchasing power will decline by 45%. When estimating an inflation figure, don't just look at the historically low inflation rates of the recent past. Also consider long-term inflation rates, since your retirement could last for decades.

**What tax rate do you expect to pay during retirement?** Especially if you save significant amounts in tax-deferred investments that will be taxable when withdrawn, your tax rate can significantly affect the amount you'll have available for spending. You may find your tax rate is the same or higher after retirement.

Once you've estimated these factors, you can calculate how much you'll need for retirement. Please call if you'd like help with this calculation. ■■■

## Should You Even Consider Early Retirement?

Not so long ago, most working people wanted to retire early. But nowadays, the prospect of retiring at a young age and depending on your investments for income for decades is suddenly a scarier thought. Should you even think about retiring early?

Much will depend on your definition of early retirement. If your definition means to quit working completely so you can travel extensively and pursue expensive hobbies, then you might want to postpone those plans for a while. However, if your definition means to change careers and work part-time at a less-stressful job, cut back on living expenses, and only take minimal amounts from your retirement savings until Social Security and pension benefits kick in, then early retirement plans might be feasible. If you want to consider early retirement, review these tips:

- **Know what you're going to do with your time.** When you're working full-time, it seems like you could fill all your waking hours with the things you don't have time to do. But if you're used to a fast-paced life, can you really expect to spend the next 20 to 40 years of your life just puttering around the house and golfing? Make sure you have concrete plans to fill your days so you don't get bored early in retirement. If possible, ask your employer to give you a short sabbatical. That way, you can see how well you'll adjust to retired life.
- **Calculate your numbers carefully.** You want to be sure your retirement savings and other income sources, such as Social Security and pension benefits, will support you for what could be a very lengthy retirement. When calculating how much you need for retirement, be very conservative. Bump up your expected expenses by 5% to 10%, add a few years to your life expectancy,

reduce your expected return by a couple of percent, and increase your inflation expectations. Don't expect to draw more than 3% to 4% annually from your retirement investments. Now, can you really afford to retire early?

- **Cut back on your standard of living.** Cutting back your expenses now will serve two purposes. It will provide more money to save for retirement and reduce your living expenses now and during retirement. Don't just look at obvious ways to cut back, such as reducing how often you dine out or taking your lunch to work. Look at more drastic measures, such as moving from your current home to a smaller one or comparison shopping for items like auto and home insurance.
- **Work at least part-time during retirement.** Even a small amount of income after retirement can go a long way in helping to fund your retirement expenses. Consider working at a less-stressful job, starting your own business, or turning hobbies into a paying job. This can give you time to pursue travel, hobbies, and other interests, while helping to fund a long retirement.
- **Move to a less-expensive city.** The cost of living in various cities across the country and in other countries can be vastly different. If you live in a city with a high cost of living, moving to a different location can dramatically lower your living expenses. However, this is not just a financial decision. You need to consider whether you'll be happy living somewhere else away from family, friends, and other ties.

While retiring early certainly seems challenging, that doesn't mean it can't be done. Please call if you'd like help developing a plan for early retirement. ■■■

## Business Data



Indicator	Month-end				
	Oct-18	Nov-18	Dec-18	Dec-17	Dec-16
Prime rate	5.25	5.25	5.50	4.50	3.75
3-month T-bill yield	2.31	2.37	2.47	1.45	0.56
10-year T-note yield	3.14	3.06	2.89	2.46	2.55
20-year T-bond yield	3.27	3.22	3.03	2.66	2.86
Dow Jones Corp.	4.36	4.50	4.40	3.13	3.17
GDP (adj. annual rate)#	+2.20	+4.20	+3.50	+2.90	+2.10

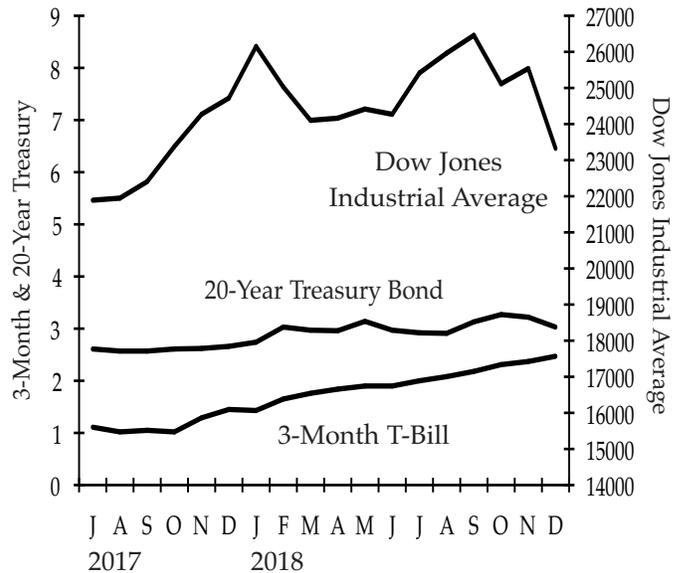
  

Indicator	Month-end			% Change	
	Oct-18	Nov-18	Dec-18	2018	2017
Dow Jones Industrials	25115.76	25538.46	23327.46	-5.6%	25.1%
Standard & Poor's 500	2711.74	2760.17	2506.85	-6.2%	19.4%
Nasdaq Composite	7305.90	7330.54	6635.28	-3.9%	28.2%
Gold	1214.95	1217.55	1281.65	-1.1%	11.9%
Unemployment rate@	3.70	3.70	3.70	-9.8%	-10.9%
Consumer price index@	252.44	252.89	252.04	2.2%	2.2%

# — 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's*, *Wall Street Journal*  
Past performance is not a guarantee of future results.

## 18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

July 2017 to December 2018



## News and Announcements

### Draw Down Retirement Funds Carefully

One of the toughest decisions you'll make when retiring is deciding how much to withdraw annually from your retirement investments. Take out too much and you could spend your later retirement years relying on the help of relatives or enduring a much lower standard of living.

Your withdrawal amount can be calculated based on your life expectancy, expected long-term rate of return, expected inflation rate, and how much principal you want remaining at the end of your life. Guess wrong on any of those variables and you risk depleting your assets too quickly. Yet, these are difficult to predict over such a long time. To help ensure you don't run out of retirement assets, consider these strategies:

- **Use conservative estimates in your draw-down calculations.** Add a few years to your life expectancy, reduce your expected return a little, and increase

your inflation expectations. That will result in a lower withdrawal amount, but it will also help ensure that your funds won't run out. Take a careful look at any answer that indicates you can take out much more than 3% to 5% of your balance each year, which is a reasonable withdrawal amount if you want your funds to last for several decades.

- **Review your calculations every couple of years.** This is especially important during your early retirement years. If you find you're depleting your assets too rapidly, you may be able to go back to work on at least a part-time basis. If you discover that late in life, working may not be an option.
- **Place three to five years of living expenses in short-term investments.** That way, if there is a severe market downturn, you won't have to touch your stock investments for at least three to five years, giving them time to recover.

FR2018-0924-0073

### GRANTLAND®

