

# Business matters: Figuring out retirement costs in advance

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Steven Podnos, Guest columnist Published 4:10 a.m. ET Jan. 2, 2020



Don't wait until you are close to retirement to find out if you have "enough" money to fund it. (Photo: Getty Images)

"If I'm not retiring for 15 more years, how much money do I need to have saved?"

It is not difficult to find information on what amount of money is needed to fund one's retirement at the time it begins. However, one rarely sees a discussion of figuring out this number far in advance of retirement itself. Knowing this information is certainly one of the most asked questions we get as financial planners.

There are both simple and complex ways to get answers to this question — but, for the purposes of this article, we'll start with a simpler approach.

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First, you must tell me how much your lifestyle will cost (either mandatory or desired) per year in after tax dollars — i.e., what do you want or need to spend each year. Next, we'll subtract the after-tax value of Social Security and any other guaranteed income streams (corporate or government pensions usually) and end up with the after-tax amount that will need to come from your investment portfolio.

Let's run some numbers. You are 50 years old and think you would like to spend about \$100,000 a year in retirement. You will have Social Security of perhaps \$33,000 a year at age 66, which will be reduced to around \$25,000 after taxes. So, you'll need to make up the difference of about \$75,000 a year from your investment pool of savings.

Now, remember you have 15 more years to work. If inflation continues at 3% a year (as it has for 50 years), you'll need at least \$115,000 in 15 years to buy what costs \$75,000 today. The erosive effect of inflation relentlessly reduces how much you can buy with a dollar every year and having a long time till retirement can produce surprisingly large effects.

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Next comes taxes on your investment portfolio income. What your tax rate will be in retirement is an unknown, but we can start with today's numbers. An income of \$115,000 in retirement today fits into the 22% marginal tax bracket, and perhaps a total tax rate of 15%. So, you will need \$135,000, then taxed at 15% to leave \$115,000 to spend in 15 years.

How much money do you need accumulated in 15 years to generate a taxable income of \$115,000 reliably over your remaining lifetime? A truly magic and important question that has no certain answer. But we have historical data to suggest that a 4% withdrawal rate is highly likely to last at least 30 years. If that is your projected life expectancy at retirement, it is a reasonable place to start. You'll need \$3,375,000 at the start of retirement in order to withdraw \$135,000 a year in taxable income. Remember that after taxes, you'll have \$115,000 which will buy what \$75,000 does today.

There are other variables to consider, but my point is that you probably need more saved than you think. How much do you need to save to achieve this goal-how much per year and for how many years? That's a subject for another day, but don't wait until you are close to retirement to find out if you have "enough."

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