How much is enough?

Many of our clients come to us requesting a magic number. They want to know how much they need to save to live comfortably during their retirement. Are they saving enough? Should they contribute more? Should they make sacrifices in the near-term to better prepare them for what lies ahead?

The old-school wisdom often quotes 4%. To translate, this means that if you can live on steady annual income withdrawals of 4% of the value of your retirement portfolio for the length of your retirement, then your portfolio should be able to (if invested correctly) withstand the ups and downs of the market and stay mostly intact throughout retirement. There is a lot of truth in this number. However, as we know, life doesn't always work according to plan.

In fact, more than likely, there will be years where you may spend more or less than others that require drawing more or less significantly from your retirement portfolio. These fluctuations in withdrawal rates can coincide with booms or busts in the markets—making that 4% number more or less reliable—and potentially damage the principal (contributions) of your investments in the lean times; jeopardizing your ability to withdraw the same amounts in the future.

We have a planning strategy that we use to help alleviate this unpredictability. In our team we affectionately refer to our client's retirement years in three different segments. This is very scientific, so brace yourself. The three segments of retirement are the "go-go," the "slow-go" and the "no-go" years.

The "go-go" years are the first years of retirement. Often activity levels, and consequently spending, are at their highest during this phase. You've worked hard to earn an opportunity to do what you have envisioned and now is the time to take advantage of all that hard work and savings. For our clients at least, the myth about tropical beaches seems to be just that. Many of our clients travel more, renovate homes, buy second homes, or spend more time with distant relatives in their go-go years. Others end up working new jobs (albeit unpaid) to support organizations and causes that are in line with their values.

And, of course, all of these are wonderful options. However, the "go-go" years inevitably begin to phase out as one enters the next stage of retirement, the "slow-go" years. During this phase of retirement, you may still be very active and out and about, however, things aren't moving quite as fast as they were right out of the gate. You're not going on as many adventures and, oftentimes, fewer resources are required.

Lastly, and logically, this period is followed by the "no-go" years. My guess is that you've figured this one out. While health care costs may play a bigger role during this phase, we often find that our older clients, who have planned and adapted well, draw even fewer resources from their portfolios at this time in their lives. At this point you may be staying close to home, not traveling much (if at all) and spending time with those nearby. This certainly doesn't mean that this phase restricts you from still being active in the causes and people's lives that you care about—just, perhaps, in an even more limited way.

Given these facts of life, our suggestion would be to consider the three phases of your retirement in your planning. That 4% in the "go-go" years may be more like 7% or 8%. During the "slow-go" years it may be closer to 4% or 5% and during your "no-go" years it could be even lower. Of course, this is all based on your own personal goals, and what you hope to accomplish with the savings you've acquired.

As a reminder, spend *wisely* & invest in good.

Until next time,

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