Rodger on Retirement

Save your wealth for retirement - you will need it!

When my friend Dennis said this, I thought, “me too.” How many times during my 30-plus year career in personal finance have I seen millionaires and multi-millionaires spend down their wealth? The number is both sad and shocking – people who should have known better, caught up in a frenzy of continuous spending. I frequently caution, “The more you spend, the less wealth you have.”

When people spend down their assets to purchase depreciating assets, such as cars, there are predictable outcomes. I agree that a Porsche is a magnificent automobile. However, the $80,000-plus that it would cost to buy the car is not practical transportation for my 17-mile daily commute. Besides, how would it drive in a foot of snow? I guess it would be cozy and warm in the garage while I shell out another $35,000 for a 4-wheel drive truck. My point is, we smile when we think of all the comforts and toys that money can buy – but things will not make you happy. Other people make you happy. Family can make you happy. Having a life full of productive pursuits can make you happy. The happiness that expensive toys buys is fleeting and soon replaced with thoughts of newer and better toys. The endless withdrawals from your bank account to buy *things* are never ending.

People that are caught up in spending fever will get a real shock when they learn that one of the biggest financial threats they face may come from a number that they deem small and inconsequential. The number I am thinking of is 4. Specifically, 4%, which is the approximate number representing trend line inflation in the Unites States for the last 50 years. Expressed another way, what $100 purchased in 1964 took approximately $754 to purchase in 2014. The average rate of inflation over the 50-year period was about 4.12% (Bureau of Labor Statistics).

Now suppose, just suppose, that you are thinking of retiring in 18 years. You are now a healthy 44-year-old and you dream of stopping work at 62. You figure that $68,000 a year would be a great retirement income. That works out to be about $5,666 per month. You believe that social security will kick in about $20,000 per year, so you only have to worry about generating a $48,000 income. Here is where you put on your deer in the headlights hat. If inflation were to be approximately 4%, as it has been over the last 50 years, you need to dust off your calculator. Eighteen years from now, you will need to be able to generate about $97,000 of annual income. Now how do you suppose you will generate approximately $100,000 per year with that shiny new Porsche in your garage? And by the way, that is just for the first year of retirement. Here is wishing you a long, happy, and healthy life. My advice? See a retirement income planning team today.