Rodger on Retirement

The real risk in retirement

The price of a first class postage stamp in 1985 was 22 cents.
The price of a first class postage stamp in 2015 is 49 cents.

The price of a stamp has more than doubled in price in 30 years.

Here is my question: are you and your significant other prepared for a potential three-decade retirement with the prices of goods and services increasing, on average, between 2% and 4% each year? In his second edition of “The Art of Asset Allocation,” David Darst states “Throughout modern financial history, the rate of inflation has not remained constant, but has risen and fallen… purchasing power erosion have for many years in the past been a fact of life and represent a significant risk that the investor should address squarely and prepare for.” Let us be clear on this: imagine 30 years without a paycheck. Roll that around your brain for a bit. Scary, isn’t it? I would think so.

So many of us have family members who have lived into their 90s, yet many of us do not believe we will live that long. According to the Social Security Administration, “More than one in three 65 year olds today will live to age 90, and more than one in seven will live to age 95.” Advances in medical science have transformed many fatal diseases into chronic conditions, allowing people to live with diseases that were previously death sentences.

A 3% annual inflation rate does not seem overly high until you compound it. Consider if you need $50,000 of retirement income today you will need $65,200 in 10 years. In 20 years, you would need $87,700 and in 30 years, you would need $117,800 to match your purchasing power of today. Many of us are not prepared for life without a paycheck, and fear that it is too late to begin saving for a future of ever increasing expenses. The fact is, it is never too late to begin to save. Changes in your lifestyle: two less outings to Starbucks or expensive restaurants are a good beginning. Forgo the super premium brands of alcohol, as taught by the late Dr. Tom Stanley, author of “The Millionaire Next Door.” One of the biggest risks of an extended retirement is running out of money.

The risk is exaggerated when retirees spend lavishly in the first five years of retirement. Working with a financial planner, you can begin to model what your expenses might look like, differing rates of inflation, how long you might live. The risk of running out of resources later in life is very real. You did not work decades to end up in your kid’s basement, relying on their generosity to make your monthly budget.