What's Your Retirement Number?

Part 1 and 2 of a 2-part series

Gene Walden

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What will it take to get you out of the work force and into a comfortable retirement?

The answer is what author Lee Eisenberg terms "*the Number*." It is the amount of money you need to accumulate during your working years to cover all of your expenses in your retirement years.

Eisenberg was in the Twin Cities recently discussing his book, *The Number*: *A Completely Different Way to Think About the Rest of Your Life* (published by Free Press).

Eisenberg spent nearly 20 years as the editor in chief of *Esquire* magazine before becoming the creative director for Lands End in Madison, Wisconsin. Exactly how that qualifies him to write a book on retirement planning is a little sketchy, but most of his insights were gleaned from interviews with various investment professionals.

The Number is an easy read and certainly entertaining by investment book standards, but if you're searching for nuts and bolts data that will get you to your number, you better be adept at reading between the lines. In the final analysis, he advises readers, "you make the call."

In other words, there is no universal number for all investors. As Eisenberg puts it, "like snow flakes and fingerprints, no two Numbers can ever be the same." Hmmm, so if my number is $2 million, apparently nobody else can have that number. Here's another number for you: 252. That's how many pages you have to read before you find out that there really is no number.

However, Eisenberg does relay a wide range of opinions and advice from financial advisors that may lead you to contemplate the possibility of what your own number might be. For instance, one of his sources likes to ask his subjects three questions:

If you had all the money you needed for the rest of your life, how would you live?

If the doctor tells you that you will die suddenly sometime in the next five to 10 years, how would you live?

If the doctor tells you that you have 24 hours to live, what did you miss; who did you not get to be; what did you not get to do?

Most respondents tend to give very similar answers to the first and second questions and typically focus on material things, says Eisenberg. But it's the answer to question three—your reflections with 24 hours to live—that gets at the heart of "what the Number is really for." It's not just about what you need to buy, but what you want to do, who you want to be, and what you want to accomplish with your life. Those types of factors, unfortunately, tend to complicate the search for the magic number even further.

The book does provide one number to help you calculate *your* number—4 percent. In other words, with a moderately conservative investment portfolio, you can reasonably expect to withdraw 4 percent of your money each year without ever depleting your retirement nest egg. So if you want to live on $80,000 a year, for instance, that's 4 percent of $2 million, so your number would be $2 million (except that $2 million is already *my* number, so you need to find a different number).

But will that number really get you to what Eisenberg calls your "Satisfaction Factor?" No, probably not, he concedes. For that, you'll have to analyze your other assets and examine what you really want to get out of your life in your retirement years. Your number could be higher or lower, depending on those goals.

Although the book does lead you to the inevitable conclusion that there is no one-size-fits-all number, it does invite some soul searching and contemplation. Beyond reading the book, however, you might also want to pay a visit to an investment advisor or financial planner to narrow down your number a little further.

Richard Brown, CEO of Bloomington-based JBNA Financial Advisors, which sponsored Eisenberg's visit to the Twin Cities, isn't ready to volunteer a number either, but he does have some advice. Don't just throw your money at the market. You need a financial plan to get you to your retirement number. "It has to be a living, breathing plan that you can adjust as changes occur in your life."

There are three things you need to do to hit your number, adds Brown, "save, get a real financial plan (rather than just buying investments), and be realistic about your goals." If you start early enough—barring unforeseen catastrophic events (of which there are, unfortunately, endless possibilities)—you should ultimately be able to reach a number that will provide you with a comfortable retirement.

Still wondering what your number is? Tune in to this column again next week when I'll give you the *real* number and a real plan for hitting *your* number.

The Number Part II

Gene Walden

Life happens and so does inflation. Those are the two biggest hurdles we face trying to follow a financial plan toward a comfortable retirement.

The past two columns have probed "the number"—the amount of money you need to save to fund the kind of retirement lifestyle you want to lead. It's considerably easier for the very affluent—professional athletes, lottery winners, business owners, and highly paid professionals—to hit their number than it is for most working Americans. But even the affluent sometimes see their windfalls wiped away through bad luck, bad decisions, or the endless effects of inflation.

For the vast majority of working Americans who must deal with family expenses, career changes, business failures, divorce, disaster, and the other curves that life throws our way the task of setting aside enough money to live comfortably for another 20 to 30 years can be overwhelming.

Retirement planning is a relatively new concept in our society because extended longevity is a relatively new phenomenon. A century ago, life expectancy in America was 48 years. The word retirement was hardly in the vocabulary. By 1950, average life expectancy had climbed to 68, so the odds of living through your working years had increased dramatically, but it was still unlikely you would live more than a few years beyond your retirement.

Today, life expectancy has climbed to 78. And for those who are already 65, the average life expectancy is 84. In other words, if you retire at age 65, odds are you will need to support yourself for another 19 years or so.

So if you're looking for your real "number," start with 84 and subtract your age. If you're 44, your number is 40 (84 minus 44). If you're 54, your number is 30 (84 minus 54), and if you're 64, your number is 20. Those numbers represent the amount of years you'll need to find a way to support yourself. And saving every spare dime you can find isn't necessarily the right answer. Even that may not be enough to fund the retirement life you want to lead.

The problem with plans

Good financial planners will try to help you understand the effects of inflation. Typically they may tell you to count on a 3 percent inflation rate, which is what the government tells us is the average annual increase in the cost of goods and services, based on a system known as the Consumer Price Index. And while 3 percent doesn't sound like much, over time it really adds up. At that rate, prices would double every 25 years and triple every 40 years.

That's a little scary. It's also a whooping government lie. Rather than a three-fold increase the past 40 years, many costs have risen by 10- to 20-fold. The fact is, from health care and insurance to educational expenses and energy, real inflation is far worse than the government figures would lead us to believe.

To illustrate the sharp difference between real inflation and the government's badly-skewed version, I tracked down the prices of some products from 40 years ago in a book called "The Value of a Dollar."

Fortunately, demographic trends may play in your favor. As baby boomers exit the work force, there is expected to be a glut of openings for experienced workers.

At first blush, the notion of working longer may be tough to accept, but once you buy into the concept it can actually be a freeing revelation. Suddenly there is no impending deadline, no ticking clock, no rush to hit your magic number. You can take a day off, play some golf, and spend a few extra bucks on the kids. The pressure is off.

The good news is that improved nutrition, fitness and health care are helping us live longer. The bad news is, those extra years are going to cost us a lot more money and perhaps a few more years in the work force. All things considered, I'd say that's a pretty good trade-off.