



Proactive Wealth Management

## Monthly Letter

June 16, 2016

### **How much income do you actually need in retirement?**

One of the most common questions that we get from clients nearing retirement is, "How much income am I going to need to be comfortable?" It's an important question that gets right at the heart of the retirement puzzle.

Although we wish we could give you a round number right here, that just isn't possible. Too much depends on your personal situation. What is possible is to think ahead about your lifestyle and financial needs and come up with some approximations that can be used to develop a personalized retirement strategy.

We developed this letter to be used in tandem with the **Retirement Budget Worksheet**. If you would like a worksheet, please email [morgan@irongatepartnersinc.com](mailto:morgan@irongatepartnersinc.com). We recommend that you set aside a few hours with your spouse or loved ones, gather your bills and statements, and complete the worksheet together. Just the process of developing some income estimates can give you more confidence and a sense of control over your finances.

We can arrive at an approximation of your target retirement income by answering a few broad questions:

### **How much are you spending each month right now?**

The easiest place to start when developing a retirement budget is to understand where your money is currently being spent. Our detailed worksheet breaks down your expenses by category. The most accurate way to gauge your household spending is to look at your bills, bank statements, credit card statements, and other financial accounts to see where your money is actually going.

## How will certain expenses change in retirement?

Your spending patterns will change in retirement. For example, many homeowners pay off their mortgages by retirement, significantly reducing their fixed housing costs. Research shows that food and job-related costs tend to drop because retirees have more time to shop and prepare meals, and no longer pay for a professional wardrobe or commuting costs.<sup>[i]</sup> On the other hand, many retirees see increases in discretionary spending as they take advantage of more time for hobbies, travel, and fun.

## What major expenses should you plan for?

Once you have a handle on your monthly budget, the next step is to think about any large, one-off purchases that you will likely make in retirement. Buying a new car, updating your appliances, or taking on major home improvement projects may require extra cash at some point in the future. You should also think about the big items on your bucket list: a once-in-a-lifetime vacation, a new boat or RV, or large philanthropic gifts will definitely need to be considered in your income strategies.

## What's the next step?

The work doesn't stop once you have developed your initial retirement income estimate. There's a lot of additional analysis to be done to help determine how much income you will need at different stages of your retirement and where that income will come from. We take a look at many other important factors in your personal retirement income calculations, including:

**Longevity & health history:** Advances in medicine and healthcare mean that many Americans can expect to spend 30 years or more in retirement. According to actuarial tables, there's an 18% chance that at least one member of a 65-year-old couple will live to see 95.<sup>[ii]</sup> We take a look at your personal situation and health history to help ensure your income lasts as long as you need.

**Inflation:** Increases in the price of goods and services mean that your expenses will rise over time. 3.2% inflation, the long-term average annual price increase, will cause prices to double in just 22.5 years.<sup>[iii]</sup> We also consider other types of inflation; many simple inflation calculators don't account for increases in food, gas, and healthcare costs since these volatile categories are usually excluded from the headline Consumer Price Index. However, do they affect your personal bottom line? You bet they do.

We hope that you have found this letter to be informative, educational, and - most of all - reassuring. If you're worried about retirement, we want you to know that you're not alone. We have helped many people just like you protect their lifestyles and develop a personalized strategy for their future income needs. If you have questions about retirement and would like to speak to an experienced professional, please reach out to us

for a complimentary consultation. We are here to be a resource.

Kind Regards,

IronGate Partners

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- [\[i\] http://www.pensionresearchcouncil.org/pdf/2007-04-23-Hurst.pdf](http://www.pensionresearchcouncil.org/pdf/2007-04-23-Hurst.pdf)
  - [\[ii\] http://www.actuary.org/files/Risky-Business\\_Discussion-Paper\\_June\\_2013.pdf](http://www.actuary.org/files/Risky-Business_Discussion-Paper_June_2013.pdf)
  - [\[iii\] http://inflationdata.com/Inflation/Inflation\\_Rate/Long\\_Term\\_Inflation.asp](http://inflationdata.com/Inflation/Inflation_Rate/Long_Term_Inflation.asp)

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