

# Op Ed: Did I prepare well enough for retirement?

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After years of conversations with those on the verge of retirement, I've noticed a trend that seems to be common among those preparing to step into their golden years. The trend is a need for confirmation; confirmation that all the hard work, discipline, and saving was enough. They want to know that they've done a good job and that they were good stewards of their money. And, they want to make sure that the nest egg they've built will last for the rest of their lives.

In fact, this isn't the only question that I've heard frequently over the years. People also ask:

- Am I saving enough or did I save enough?
- Can I retire or did I retire too early?
- Did I make prudent investment decisions?
- How do I compare to my peers?

## **The Answers**

The answers to all of those questions are certainly important. But, like most things related to retirement planning, there is no one-size-fits-all answer. Therefore, just because you've accumulated \$500,000, \$1 million, or \$2 million, doesn't mean you've won the retirement game. Certainly, if you've saved any of those amounts, one could argue you've done well at accumulating assets, but it may be what you do over the course of your retirement that determines your success, and also determines if you've done enough to prepare for this new phase of life.

So, to know whether you've done a good job preparing for retirement, you'll need to dig a bit deeper.

## **It's Not All About the Portfolio Size**

In retirement, it's all about your income to expense ratio. Can you generate enough income to cover your expenses? And, can you do so without drawing a significant amount of your portfolio out each year?

In my experience, I believe people can ignore all of that and instead become too focused on just the total value of their portfolio. But, I've seen cases where an individual may have a small to almost non-existent investment portfolio, but they are still able to cover all their living expense needs in retirement via pension benefits. Does a small portfolio mean that person did a bad job preparing for retirement? Absolutely not.

Similarly, other individuals may not have a pension, but due to having minimal living expenses, they may be able to live comfortably simply with Social Security benefits and modest withdrawals from their portfolio. So, if that individual is able to take care of all of their income needs with minimal withdrawals in retirement, but their portfolio is under \$500,000 at the time they retire, does that mean they've done a bad job? Of course not.

In both examples, it seems those hypothetical individuals would be projected to successfully fund their retirement primarily through other income sources, negating the need for a large investment portfolio.

On the flip side, just because someone has a large portfolio doesn't mean that individual is safe from the risk of running out of money. If someone has accumulated \$1 million in retirement assets, but they require \$150,000/year to live and have no pension, that \$1 million may not be enough to last them throughout their retirement years.

So, you can see how important the required living expense amount is for retirement planning. The higher the expense need, the more income needed. The more income needed, the bigger the portfolio needs to be (typically).

## **The True Size of Your Retirement Bucket**

Pension benefits and semi-retirement income are other factors that need to be considered. Both are often understated and under-appreciated. I've had several occasions where an individual has come to me and been disappointed or even embarrassed at the size of their investment portfolio. However, upon further investigation, those same individuals were also entitled to very strong pension benefits and didn't understand the significance of their pension benefits.

To put it in perspective, I explain a calculation that approximates what the pension benefit is equivalent to if it were in the form of additional retirement assets. In other words, we ask "What would the value of your portfolio need to be to generate the same income as the pension for a period of 30 years?"

For example, if Bob's pension guarantees \$40,000 per year, what would he have to have in an IRA to generate that same income for his lifetime? Even if you assume a conservative withdrawal rate of 3%, you could estimate that Bob would need approximately \$1.3 million in an IRA to generate \$40,000 per year in retirement income. Or, in other words, you could argue that Bob's pension benefit makes him a millionaire.

In this case, Bob may not feel like a millionaire because he doesn't see that account balance anywhere, but, his pension offers a benefit that is comparable to a million-dollar portfolio.

## **Bottom Line**

So, how do you tell if you've prepared well enough for retirement? You can't answer the question simply based on the size of your portfolio. You need to dig deeper and take other factors into consideration. Things like additional income sources, your living expense need, and your Social Security benefit will determine your probability of retirement success and financial independence.

By taking the time to create a financial plan, or by meeting with a financial professional to help you do so, you'll be able to more adequately answer the question of "Did I prepare well enough for retirement?"

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