

How Can Retirees Gauge Their Risk of Running out of Money?

By: Michael Carbone, CFA, CFP®

How much income will you need off your investment portfolio? Will your money last? These are difficult questions to answer because the future is unpredictable. I believe financial planning is both a science and an art. The science component being a deep understanding of the time value of money and statistics. The art component being how well you understand your assumptions. For example, do you know what you are really spending? In our experience, most people underestimate their spending needs – many by a shocking amount. Also, we've found spending needs evolve over time. Although retirement planning with precision is an intricate process, there are ways to gauge your overall readiness.

During your retirement years, you'll rely on your savings to bridge any gap in your spending after receiving Social Security and any pensions. So, you'll need to know how much income you'll need from your investment assets. Keep in mind, your primary residence is not an investment asset, as it is not available to produce income.

Have you accumulated sufficient assets to support your spending need?

How much income will you need *after* taxes?

What *investment return* do you expect to earn?

What do expect *inflation* to average?

What do you expect your *average tax rate* to be?

Hypothetical Required Savings

Interpretation: The above estimate is solved mathematically using your assumptions. Keep in mind, the output is not as accurate as a proper Retirement Needs Analysis, as it doesn't account for changing variables, including different investment outcomes, spending adjustments as you age, and investment allocation changes.

It's important to understand the powerful trade-off between how much money is required to produce a given level of income and the investment return on the money. For example, the higher the investment return of the money, the lesser money required - and vice versa. As a result, all assumptions should be supported with thoughtful rationale.

Since the future is uncertain and due to the range of potential investment outcomes, we believe a Retirement Needs Illustration should always be stress-tested for adverse outcomes. You may find that a more comprehensive analysis offers insight to help you make better decisions. Please let me know if you'd like a second set of eyes on your financial goals. Please see Important Disclosures below. Please see Important Disclosures below.

Michael Carbone, CFA, CFP®

Michael.Carbone@RaymondJames.com // 978-455-7799

Important Disclosures

Past performance is not indicative of future results and there is no assurance that any investment strategy will be successful.

This is a hypothetical example for illustration purpose only and does not represent an actual investment. Actual investor results will vary. Investments involve risk and you may incur a profit or a loss.

The projections or other information, generated by a retirement needs illustration regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Please note that market performance, which cannot be guaranteed, may have a significant impact on your results. Results may vary with each use and over time.