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To help answer the question:
How much will I need to retire?

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SMART ASSET FORMULA:

HOW MUCH WILL I NEED TO RETIRE?

A Guide for those who mistakenly think they will never retire.

I. INCOME REPLACEMENT

(Replacing your labor-produced income):

How much income do you anticipate needing to maintain your current lifestyle? Notice we said maintain – forget the advice to live on less after retirement – who wants that? Assume that current debt obligations and any known future major obligations have been provided for (tip: don't retire until these have been handled).

Inflation (best guesstimate) = 4% per year

We'll deal with inflation in the asset investment section)

II. CURRENT PASSIVE CASH FLOW (INVESTMENT RETURNS)

What is your current passive cashflow income from investment capital/assets? (stocks, bonds, annuities, real estate)

*Note: depending on “your number ‘g’,” you have three choices in order to retire or transition out sooner:

- 1. Work longer (if possible)**
- 2. Reduce your retirement lifestyle (you already know how we feel about that)**
- 3. Increase your investment capital and return expectations**

III. AVAILABLE CAPITAL INVESTMENT

Do you have a business entity that you will be selling as part of your retirement plan? If so – what is your best estimate of the AFTER TAX proceeds from that sale – (h) \$ _____ note that taxes may take a significant bite out of that sale price you anticipate.

Estimate the dollar amount of your current investment capital that is “under-invested” because of fear or indecision about the economy? For example, is a significant (20% or more) of your current investment capital invested in savings, CD’s or US T-bills? = (i) \$_____

Any investment making 5% or less should be considered “under-invested”.

Any other anticipated capital from asset, windfall or inheritance? = (j)
\$_____

(h) - sale of business

(i) - under invested

(j) - asset, windfall or inheritance

(k) - net available capital for investment

IV. RETURN ON INVESTMENT: *

Safety and principal preservation must be high on the list of priorities; however, current conservative returns (CD’s, savings, US T Bills) are historically low today

1% CD’s, bank savings, U.S. T-Bills

2% Same as above

3% Municipal bonds (tax-preferred increases rate of return by approximately 25%)

8% Secured, low risk, low volatility real estate investments

10% Secured, low risk, low volatility real estate investments

(return) _____% (put your best guess number here) X (k) _____ = (l) \$0.00 per month

*Note: return on capital investment is the quandary of every investor and of every retiree. Safety and principal preservation must be high on the list of priorities, however current conservative returns (CD’s, savings, US T Bills) are historically low today. The final variables that have a huge impact on the future lifestyle of the retiree are **1) taxes** and **2) inflation** (the “hidden tax”).

V. HYPOTHETICAL EXAMPLE:

For the purpose of comparison, in this example, you determine that your desired post-retirement lifestyle would be well served with **\$10,000/month X 12 months = \$120,000/year.**

Remember: This number does not include consumer debt (HELOC, auto, vacation home, personal credit card or other personal debt). This debt needs to be paid off before your retirement date. *

*Tip: paying off existing debt and building net worth and passive cash flow can be done simultaneously with the right plan of action and investment strategy. Most of us have never had a viable plan or strategy and have relied on outmoded financial advisor plans that concentrate investments in stocks, bonds and annuities – all financial products highly susceptible to volatility in the market place.

\$120,000 X 1.33 (to gross up for taxes) = **\$150,000/yr.** (income requirement for post-retirement lifestyle)

What's Your Rate of Return? (on your available investment capital)? See your answer (r) above.

Reverse Engineer

\$150,000/yr. passive income requires:

@1% return \$15.0M capital investment required

@2% return \$7.50M capital investment required

@3% return \$3.75M capital investment required

@8% return \$1.875M capital investment required

@10% return\$1.5M capital investment required

The point is, your ability to safely earn a higher rate of return on investment is a major key to your ability to retire or slow down sooner without having to reduce your desired retirement lifestyle.

VI. THE INFLATION FACTOR

Fixed income investments are highly susceptible to inflation (the hidden tax that destroys wealth not indexed to inflation).

Real estate cash flows (rents and/or interest payments) rise with inflation as does the intrinsic value of real estate.

VII. TAXES AND FEES

Our taxes will undoubtedly go up in the future because of our national debt.

VIII. SELF-DIRECTED IRA'S AND QUALIFIED RETIREMENT ACCOUNTS

Very few people understand that real estate is an allowable option for retirement accounts. There are many IRS-approved third party custodians who can assist with setting up self-directed accounts which allows the account holder to “direct” or make their own investment decisions.