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SPECIAL REPORT

Use this quick gauge for retirement planning

How much money should you save? That depends on how you'll want to live.

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A TOOL ON THE WEB
You can link to a retirement calculator that's part of this article at obgmanagement.com

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If one issue dominates all others in financial planning, it's retirement. Every client, at some point, asks two timeless questions of me: How much will I need in retirement? And how much do I need to save now to get there?

My answer is always the same: It depends.

The mobile home scenario

Depending on the client, I have proposed that he (or she) could retire today—if he's willing to inhabit a mobile home and, probably, lose his spouse and custody of the kids. Sometimes clients smile at my proposal, sometimes they don't.

Still, the mobile-home scenario is a good starting point for discussion because retirement, from a financial perspective, depends almost entirely on spending habits. Tell me how much you will spend in retirement and I can calculate, to some degree, what your portfolio should be and how much you have to save to get there. The trouble is, unless you are close to retirement, you can't tell me how things will change between now and then.

A wish, and a plan

One of my oldest clients—dating back more than 20 years—was a senior executive with a major corporation until he retired last year. When we were talking about projections, at one point, he said that, in business, a 1-year projection may be accurate but a 5-year game plan is simply wishful thinking. So many things can change.

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Calculate how much to save for retirement

Go to www.dinkytown.com to evaluate your retirement savings, prepped with:

- Your age (now)
- Household income
- Rate of return before retirement
- Percentage of income to contribute
- Years of retirement income
- Expected rate of inflation
- Age at retirement
- Current retirement savings
- Rate of return during retirement
- Expected salary increases
- Percentage of income at retirement

FAST TRACK

Make an appraisal of your spending habits—but keep in mind that everyone lies about, or misjudges, how much they spend!

In personal financial planning, the same is true. If your retirement is years away, you could change jobs and spouse, and have children (or more of them) with varying college costs. Really, the only thing to do is to make some basic assumptions about the future based on your spending today, take into account likely future events, and, then, begin the process.

So, let's start with the basics and work backward. This quick look at retirement planning focuses on three factors.

The 4% to 6% drawdown

First, how much can you draw off your portfolio without running out of money—or still have a relatively high probability that you will not run out of money? A multitude of studies on this topic have incorporated hundreds of economic and investment permutations (referred to as Monte Carlo simulations).

The clear consensus is that a balanced portfolio of stocks and bonds should yield an income stream of 4% to 6% annually, with a good chance the principal remains intact or grows. Pushing the withdrawal rate past 6% can be done, but you have to be willing to cut back during down markets.

My experience is that the high side of this range has worked well. But these clients have been in the position to cut back on expenses in down years.

Pay off that mortgage?

Second, paying off all debt before you retire is not an investment decision. Arguably, if your investments perform well and your mortgage is a low-interest one, paying it off may not be a good idea.

The reason planners, myself included, recommend paying off the mortgage is to reduce one's fixed costs in retirement. Having low fixed costs but higher discretionary costs gives you the ability to cut back if necessary. Flexibility of spending can be as important as investment performance.

How much you'll spend (really)

Third, you'll need to make a realistic appraisal of your spending habits. My experience tells me that everyone, including me, lies about spending. When I began my practice, I asked clients to submit a detailed budget of their expenses over the past month. But one month did not cover all expenses.

So we tried three months, then a year—and still projections were off! I then tried the same on my own expenses and found that I could never capture all expenses. Or, more often, we considered such expenses as a new muffler for the car or a new roof to be one-time events. Wrong.

My personal and, I think, more accurate, preference is to simply determine how much you saved at the end of the year, subtract that from your income after taxes, and assume you spent the rest. This eliminates hours of trying to figure out where the money went. The only adjustment to this calculation

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Calculate how much you'll need in retirement

- Take what you spend in a year
- Multiply that by the inverse of a 4% return on portfolio, or 25

Example:
You spend $100,000 a year
- **$100,000 × 25**
- **You need $2.5 million**

mainly involved laparoscopic upper abdominal operations in elderly people.

Recently, however, Hasson and colleagues reported a case of possible ischemic necrosis of the small intestine following laparoscopic adhesiolysis and bipolar myolysis.[8] The authors emphasized that CO_2 pneumoperitoneum reduces splanchnic blood flow, predisposing the patient to ischemia, but that ischemia with infarction requires an underlying vasculopathy or inciting factors such as traction on a short mesentery, atherosclerosis, or thrombosis.

A high index of suspicion for bowel ischemia following laparoscopic surgery should occur when, postoperatively, a patient experiences inordinately severe abdominal pain associated with tachypnea, tachycardia, and alterations in the WBC count. A paucity of physical abdominal signs in the early phases of this disorder should alert the clinician to the possibility of bowel ischemia.

Diagnosing and treating ischemia

A CT scan with contrast can suggest ischemia, but angiography is usually required for definitive diagnosis.

Treatment begins with infusion of papaverine into the intestinal vasculature via angiography cannula. In some cases, anticoagulation may be indicated. Surgery by laparotomy is clearly indicated for patients who fail to respond to vasodilatation measures.

This condition can be ameliorated by intermittent intraoperative decompression of the abdomen. Avoiding prolonged CO_2 pneumoperitoneum and a lengthy laparoscopic operation also may diminish the risk of intestinal ischemia.

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would be to subtract those expenses that are eliminated at retirement—the mortgage and the costs of raising children, I would hope.

Running the numbers

Now you are armed with just about all you need. To take an example, suppose you have determined that you're spending roughly $100,000 a year after taxes. If your portfolio will return 6% (net, 4% after taxes), then simply multiply by 25 (the inverse of 4%) to come up with the portfolio you'll need: $2.5 million. If you want to be very conservative, assume a 4% return (3% net), and multiply by 33 to yield a needed retirement portfolio of $3.3 million.

This is, of course, a very simple analysis for those close to retirement. It does not consider the effect of inflation, Social Security (which I do not like to count when calculating), pensions, etc. It also does not answer the question of how much to save now.

Many financial Web sites do allow you to calculate how much to save, however. A site that covers the gamut of calculations is www.dinkytown.com. One piece of information it asks for that is hard to define is the expected return on investments during preretirement years. With a portfolio tilted toward growth, using a pretax return of 7% to 9% is a safe assumption. Running the calculation at both 7% and 9% sets the parameters for how much you need to be saving now.

Hopefully, the number you come up with will not break the bank for you. But if it does, there is always that deluxe mobile home.