

What would your good life in retirement cost? Take these steps, and finding the magic number might be easier than you think.

By Ng Lye Heng

**IT'S A TOUGH** question, and it's essentially the topic of just about every retirement book, article, or seminar. Everyone's trying to figure out how much they'll need, and all the experts are trying to tell you how to do it. So how much will you need? How much does it take? Will you have enough? How much is enough?

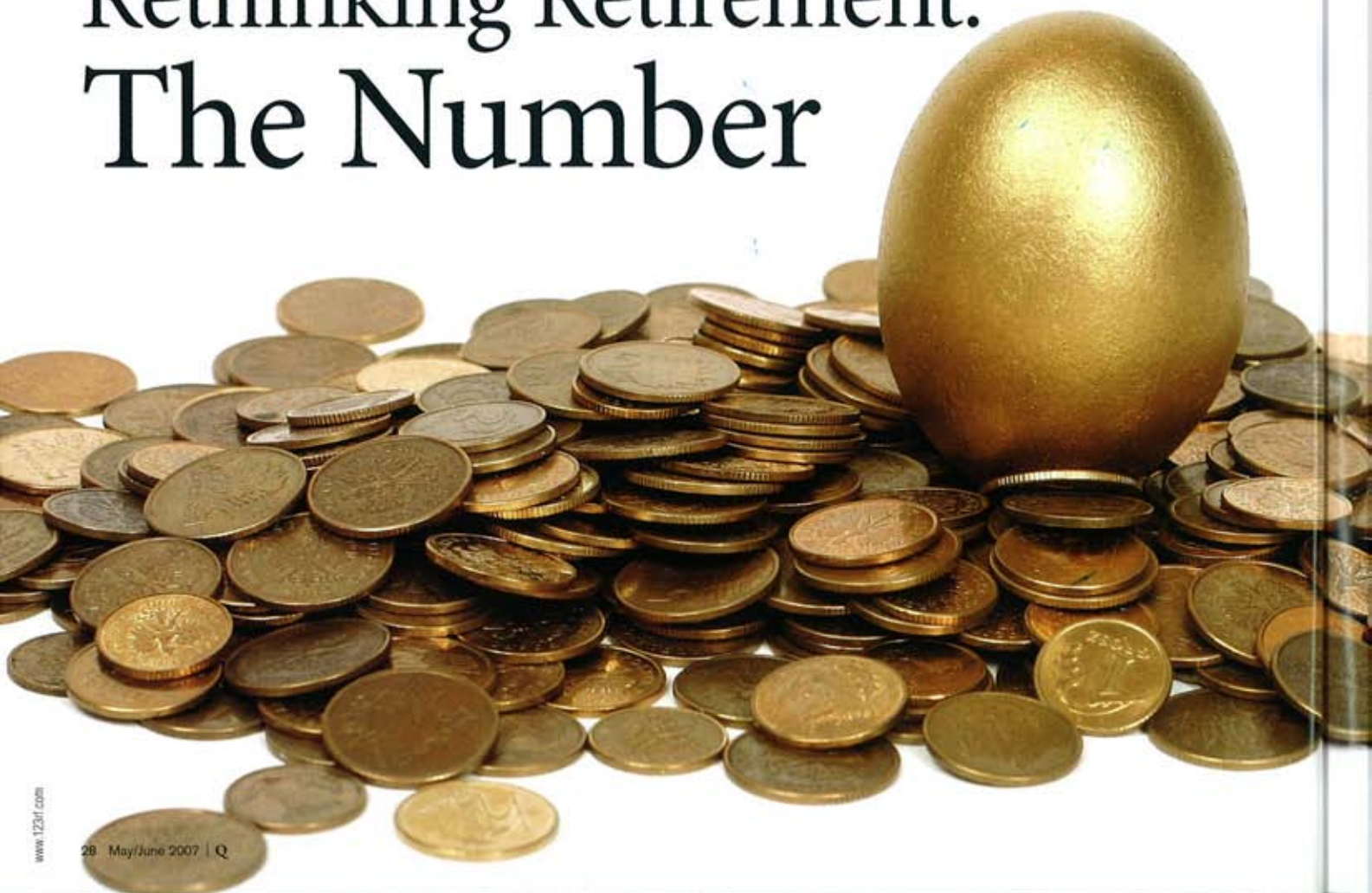
Given that you may have thirty or more years of retirement life ahead of you, to not plan for an active retirement is to set yourself up for a difficult one. Failing to plan financially may result in your spending most of your retirement days thinking about all the fulfilling activities you aren't able to pursue due to a lack of funds. Failing to plan emotionally may result in your working hard for many years, amassing a lot of money, and then wasting away your "golden years" in boring leisure activities. All should

be considered when measuring quality of retirement life.

What will your good life in retirement cost? The answer is likely to be found in your current lifestyle. For example, where do you live? How do you spend your free time? Do you enjoy a large home for family visits or entertaining? Is travel an interest? In short, what do you use your assets for now – and what are your dreams for the future?

Financial planners, who advise a broad range of people with varied retirement goals, generally suggest doing your planning assuming 70 per cent to 80 per cent of pre-retirement income to maintain your standard of living once you're retired. But if you are number cruncher and have a deep urge to uncover the more precise number you need for retirement, then the following two steps might help.

# Rethinking Retirement: The Number



## STEP 1

### Estimating How Much Annual Income you'll Need in the First Year of your Second Half

The first step is to come up with an estimate of how much income you'll need in the first year of your second half (meaning when you're no longer working full-time). To start, you'll need to estimate how much it'll cost you to live. The first worksheet (Worksheet 1) below lists the expenses that most people will face per year. Fill in what you expect to spend on each of these things during your second half, using today's dollars. For each category, try to use the average amount you'll spend each year for most of your second half.

I have included some figures for illustration. The figures are the expenses incurred annually by a hypothetical working couple who are both 50 years old and hope to retire and live to be 85. Based on their risk tolerance and time horizon, this couple estimated a 7 per cent rate of return from their investment portfolio when they're retired.

When you're filling up your numbers in Worksheet 1, there are a few pointers to take note of:

There are certain expenses that will often decrease in the second half of your life. Housing costs, for example, can be lower because people often move to less expensive homes in the second half. You may even pay off your mortgage and eliminate that expense altogether. Life insurance payments usually decrease or end altogether, as do job-related expenses (such as commuting costs, business clothes...) if you stop working. Even if you continue to work part-time, you may spend less money doing it.

Education costs. Traditionally, education costs were eliminated by the time people retired because parents had finished paying for their kids' education by then.

Health care expenses may rise, in terms of both insurance and healthcare. Be sure you're adequately insured in terms of health, disability and life insurance.

Travel and entertainment expenses can be difficult to estimate, and vary tremendously. Maybe you'll be going to the movies more often, or spending more time on the golf course, or traveling to those places you've always day-dreamed about.

Other expenses can include any additional expenses not covered in the categories above. As a result of what we call the "sandwich generation", referring to those who are responsible for aging parents, you may have additional expenses that are significant. If so, be sure to include them.

## STEP 2

### Determining the Grand Total for your Second Half

After finding out the amount you need for your first year in retirement, its time to extend this figure to the total Number you might need before the bell tolls. This second worksheet (Worksheet 2) takes into account the number of years you have until your second half, as well as the number of years you expect your second half to last.

#### WORKSHEET 1

##### How Much Income Will You Need?

#### PART 1: ESTIMATING YOUR SECOND-HALF EXPENSES


Category	Your Information		Example
	Monthly Amount	Annual Amount	
1. Housing mortgage	\$	\$	0
2. Property taxes			3,000
3. Travel and Entertainment			12,000
4. Utilities			1,500
5. Insurance (life, home, auto, etc.)			2,000
6. Transportation (MRT, patrol, parking, car, auto upkeep, etc)			4,000
7. Health-care expenses			1,800
8. Education			0
9. Food			6,500
10. Clothing			1,000
11. Personal care			900
12. Others			10,000
<b>13. Estimated expenses:</b>	<b>\$</b>	<b>\$</b>	<b>42,700</b>

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You can be young  
without money but  
you can't be old  
without it.  
~ Tennessee Williams

For this hypothetical couple, the number they need is \$949,221. What's yours?

One of the faults of the financial planning field has been that we keep saying you need \$1 million to retire. In most cases it is not true and there is no formula that will fit everyone. You have seen from the hypothetical couple above that they do not need \$1 million each to retire. By planning ahead and applying some intelligent guesses, it's not that difficult for anyone to find out the Number they need for their second half.

Knowing the Number may set some of our minds at ease, but it may also be a cause of concern for others. Nevertheless, knowing the Number in itself will not guarantee that we will have the Number when we need it in the second half. This Number needs to be funded. Next issue, I'll talk about the various investment options available to fund this Number, What and how to invest for retirement. 

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WORKSHEET 2		
What is Your Total Second-Half Number Goal?		
Years Until Your Second Half	Your Information	Example
1. At what age do you plan to stop working? (Couples should enter the retirement age of the partner who will stop working first)		60
2. How old are you now? (Couples should enter the current age of the partner who will stop working first)		50
3. Years until you stop working (subtract line 2 from line 1)		10
Years in Your Second Half		
4. What is your life expectancy? (I suggest using a life expectancy of at least 85 years)		85
5. At what age do you plan to stop working? (Couples should enter the age of the younger partner when he or she will stop working)		60
6. Years in your second half (subtract line 5 from line 4)		25
7. Total annual income needed in the second half (from line 13 on Worksheet 1)		42,700
8. Inflation adjustment factor (see Table 1)		1.3
9. Estimated inflation-adjusted additional income needed (multiply line 7 by line 8)		55,510
10. Income-to-assets factor (see Table 2)		17.1
11. Second-half asset goal (line 9 x line 10)	\$	949,221

TABLE 1  
Inflation Adjustment Factor

The inflation adjustment factor helps calculate the future value of \$1, assuming a 2.5 per cent rate of inflation over a certain period of time. (Remember that in the real world, inflation rates can vary from year to year). This factor represents how much more something that costs \$1 today will cost in a specified number of years. If you are in between years, I suggest choosing a longer time frame, which will give you a more conservative estimate.

Years	Years Until Retirement (see line 3 of Worksheet 2)							
	1	5	10	15	20	25	30	35
Inflation Factor	1.0	1.1	1.3	1.4	1.6	1.9	2.1	2.4

TABLE 2  
Income-to-Assets Factor

The income-to-asset factor helps you to project the assets you'll need to generate the income you desire. It represents the number of dollars in assets you will need to cover each dollar of expense you anticipate in the first year of your second half. The factor you choose should be based on how long you expect your second half to last, and the return you expect to generate from your portfolio during your second half. If you are in between years, I suggest choosing a longer time frame, which will give you a more conservative estimate.

Expected Years in Retirement (see line 6 of Worksheet 2)	Expected Annual Rate of Return During Retirement							
	10	15	20	25	30	35	40	45
	5%	6%	7%	8%	9%	10%	11%	12%
10	9.4	9.0	8.6	8.3	8.0	7.7	7.4	7.1
15	13.5	12.7	11.9	11.2	10.6	10.0	9.5	9.0
20	17.4	16.0	14.7	13.6	12.6	11.7	11.0	10.3
25	21.0	18.9	17.1	15.5	14.2	13.0	12.0	11.1
30	24.4	21.5	19.0	17.0	15.3	13.9	12.7	11.7
35	27.5	23.7	20.7	18.2	16.2	14.6	13.2	12.0
40	30.4	25.7	22.1	19.2	16.9	15.1	13.5	12.3
45	33.0	27.5	23.3	20.0	17.5	15.4	13.8	12.4

This table assumes the following:

1. The income-to-assets factor represents the present value of an annuity (i.e. a sum of money paid yearly or at other regular intervals) estimated at the selected return rate.
2. This table assumes a constant annual rate of return. In reality, returns will vary from year to year, causing fluctuation in the value of your portfolio and resulting potential income stream.
3. This table adjusts the return rates for an estimated assumed 2.5 per cent inflation rate.
4. In calculating the income-to-assets factor, these calculations assume that you will spend your last dollar on the last day of your life.

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