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So When Can I Retire?

Probably the most common question that I get as a Financial Advisor is "so when can I retire?" The answer is, of course, "**it depends**."

The biggest factors include your **personal circumstances** as well as your **assumptions about the future**. Even after a thorough analysis of your situation, it is often very **challenging to answer** this question as it depends upon a lot of factors that are often **difficult to predict**.

So what can we say?

While life may be unpredictable, by looking at the various factors that determine how much money you will have during your retirement, you can get a reasonable sense of when you can retire.

So what are these factors?

Before we answer this, we need to first make a distinction between two basic types of retirement plans:

- Those whose benefits are "defined" in advance, what I call "**defined benefit**" retirement plans and
- Those whose benefits are not defined in advance, which I call "**non-defined benefit**" plans.

Let's start with Defined Benefit Retirement Plans

The most commonly known "defined benefit" plan is the government sponsored **Social Security** system. The key point is that your benefits are determined by a formula that combines your **earnings** and your **age when you start collecting your benefits**. All of this is outlined in a statement everyone in the Social Security system receives three months before each birthday (for more information: http://www.socialsecurity.gov/mystatement/).

Thus, if you are a Social Security recipient, your benefits are "defined" in advance based on a formula that combines your past wages with your age when you start to collect your benefits. If you make X dollars and start to collect your benefits at age 66, you will be entitled to Y dollars per year for the rest of your life.

While “defined benefit” retirement plans vary, most include the following provisions:

- First, the **benefit** paid is “**defined**” according to a fixed schedule that is in effect at the time you start collecting your benefits.
- Second, the **benefit** is typically **based** upon two key factors: (a) **how much you contributed** (and/or was contributed on your behalf usually by your employer) which was usually based on your salary, and (b) **your age** when you retired (or started to collect your benefits).
- Third, your benefit is often **adjusted for inflation**.
- Finally, once you are eligible to receive benefits, the **payor promises** to pay these benefits to you for **the rest of your life** regardless of how long you live.

In addition to Social Security, other “defined benefit” plans include state retirement and corporate pension plans.

Note that while benefits may be “defined,” the actual amount paid may not be identical to what was promised. Social Security is the most obvious example. A 2003 report by its Trustees (see: http://www.socialsecurity.gov/OACT/TR/TR03/index.html) indicates that unless changes are made to the current system, **benefits** paid by Social Security **could be reduced** by 27% by the year 2042. Of course, it is quite likely that the system will be changed during the next 38 years, but when and **how are not at all clear.**

The key advantage of a “defined benefit” plan is the fact that your benefits are paid for the rest of your life regardless of how long you live. Given advances in average life expectancy, this feature can be helpful especially if your benefits are adjusted for inflation.

What about “Non-Defined Benefit” Retirement Plans?

While most of us will receive some Social Security benefits, most of our retirement will probably be funded by “**non-defined benefit**” retirement plans **such as** Individual Retirement Accounts (**IRA’s**).

With non-defined plans, the amount of benefit (typically taken in the form of a yearly withdrawal) often changes from year to year depending upon the amount of earnings (or losses) sustained in your retirement account as well as your yearly needs.

When reviewing “non-defined benefit” plans, the key questions to ask include:

- How much do you expect to **start with** (e.g. how much do you expect to have contributed to the plan by the time you retire)?
- How much do you expect your plan will **earn** (or lose) during its existence (e.g. investment gains/losses)?

- In order to adjust your benefits (withdrawals) for inflation, it will be necessary that your plan **grows** in value **by more than** the yearly **inflation** rate.
- Finally, your benefits will last only as long as you have money in your account. Thus, you will have to make assumptions regarding your **life expectancy** as you calculate your withdrawal rate.

Bottom line

In short, answering the question of **When Can I Retire** is, at best, **an educated guess** that is **dependent upon numerous variables** none of which are truly guaranteed. The best that anyone can do, even in a professional setting, is to make realistic assumptions regarding the future **based upon what we know** at present. What we can say is:

- ◊ **Save more** rather than less and make the maximum possible contributions to your retirement accounts
- ◊ **Postpone retirement** as long as possible
- ◊ **Reduce your future expenses** by paying down debt, downsizing your living space, and simplifying your life

By taking such steps today, you are more likely to have a comfortable retirement – at least from an economic standpoint.

Happy Investing!

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Announcement

I am pleased to announce that Bradyco Financial is offering an **investment management service** for investment portfolios of $500,000 and higher. For more details, please contact me or check out: http://www.bradycofinancial.com/investment.htm

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