



Retirement Across the Generations

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Retirement Across the Generations

What, Me Worry?



20 – 35

Retirement Across the Generations

What, Me Worry?



20 – 35



35 – 55

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35 – 55



55 – 70

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What, Me Worry?



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35 – 55



55 – 70



70+

Millennials

Why Think About Saving?

- If you want to work forever, then you have little to worry about.
 - Unless you want to buy a house
 - Or a car
 - Or a dozen other things
- Visualize your parents

What, Me Worry?



How to Calculate Retirement Need

Income desired

- pension income
- Social Security
- Other income

Income needed from savings

- 4% Rule
 - 85% success rate
 - Need 25x in savings

Millennials

Why Think About Saving?

Because you will need *a lot*

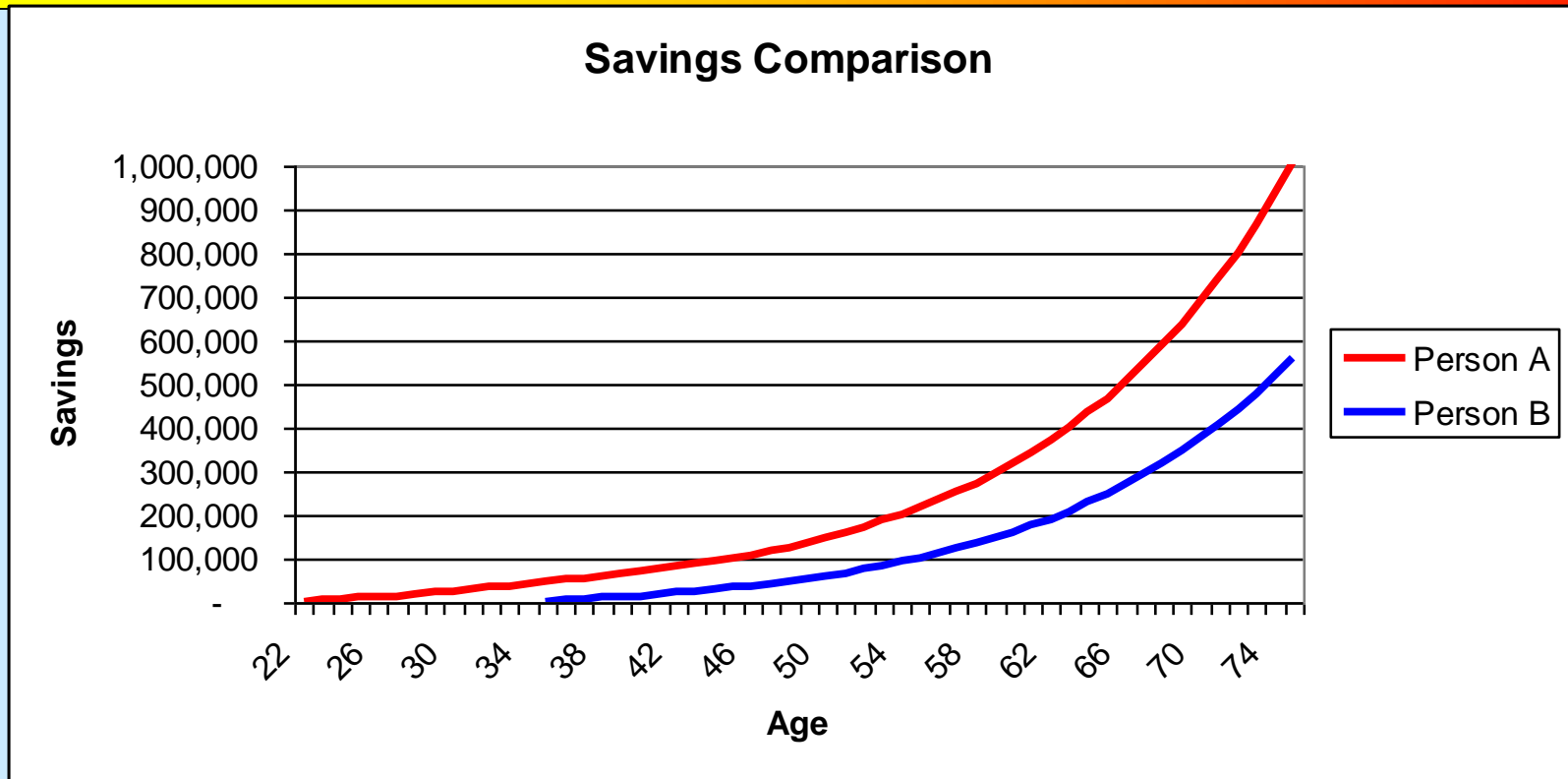
- Median income in NJ \$71,000
- To replace that in retirement, would need
 - **\$568,000** using Fidelity 8x estimate
 - to
 - **\$1,775,000** using 4% Rule
- Either way – a lot of money
 - Think **\$1M**

Millennials

Why Save Now?

- You need to save *a lot*.
 - With inflation, you'll need to have even more. Think at least double!
- “I'll start saving later when I make more money.”
 - A \$million decision

You Can Never Catch Up or How to Blow a \$1M



Person A: Saves \$2000 per year from age 22 to age 35 and then stops

Person B: Starts saving \$2000 per year beginning at age 35 and never stops

Both earn 8% on their investments.

At age 75:

Person A has \$1M in savings

Person B has \$561K in savings

Years to “Financial Freedom”

Savings Rate	Years to “Freedom”	Age when “Free”
5%	50	72
10%	40	62
15%	34	56
20%	30	52
25%	26	48

Assumes:

- 7% annual rate of return.
- Start saving at age 22.

Source: <http://www.forbes.com/sites/robertberger/2015/03/03/how-much-of-your-income-should-you-save/2/?ss=retirement>

Saving

- Keep it simple
 - “Pay yourself first”
 - Budgets are *very* difficult to make and follow
- Don’t spend like a millionaire until you are one
- Fancy cars and expensive clothes are not a sign that you have money. They are a sign you *had* money.

Millennials

- The most important financial decision you can make is to start saving
 - **Now**
 - Pay yourself first
 - Save 15% - 20% of your income
- **Do not spend like a millionaire until you are one.**



The Middle Years

- 30 – 55
 - Family years
 - Keep saving



- 55 – 70
 - Empty nesters (hopefully)
 - Accelerate saving



The Middle Years

- Continue saving
- Many competing needs
 - Home
 - Vacations
 - Kids
 - College
- Track progress
 - What is net worth?
 - What is savings rate?

The Middle Years On Track to Retire?

Age	Savings Target
30	.5 times current salary
35	1 x
40	2 x
45	3 x
50	4 x
55	5 x
60	6 x
65	7 x
67	8 x

Source: Fidelity Investments

The Middle Years On Track to Retire?

Calculate

age x pre-tax income x .10

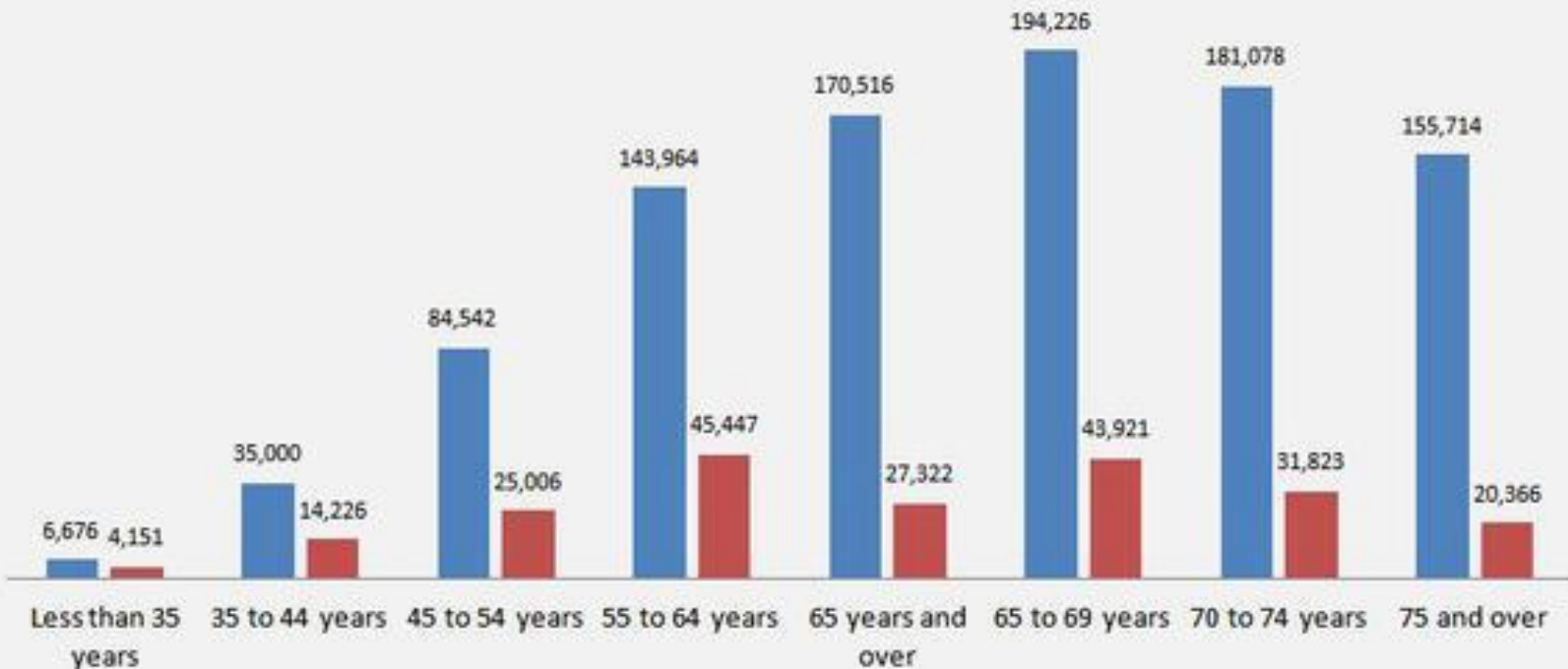
- Prodigious Accumulator of Wealth (PAW)
- Average Accumulator of Wealth (AAW)
- Under Accumulator of Wealth (UAW)

Example: age 50, income \$50,000 is an AAW if they have saved \$250,000.

The Middle Years

Median net worth: Americans, \$'s

■ Net Worth ■ Net Worth (Excluding Equity in Own Home)



Source: U.S. Census Bureau

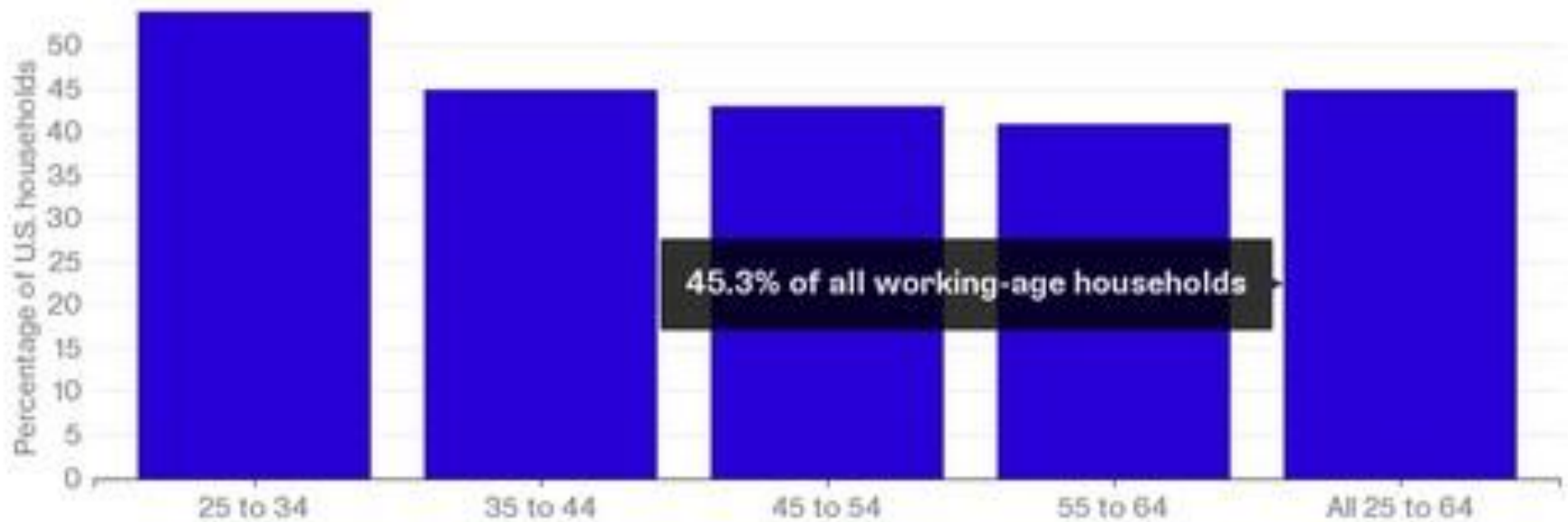
The Middle Years Savings

Savings	Ages 45 – 54	Age 55+
< \$10,000	46%	31%
\$10,000 - \$99,999	26%	29%
\$100,000 - \$249,999	12%	18%
> \$250,000	17%	22%

Source: 2012 Retirement Confidence Survey, Employee Benefit Research Institute and Mathew Greenwald & Associates

The Middle Years Savings

Less than Half of Households Have Retirement Account Assets



Source: National Institute of Retirement Security analysis of 2013 Survey of Consumer Finances

Retirees

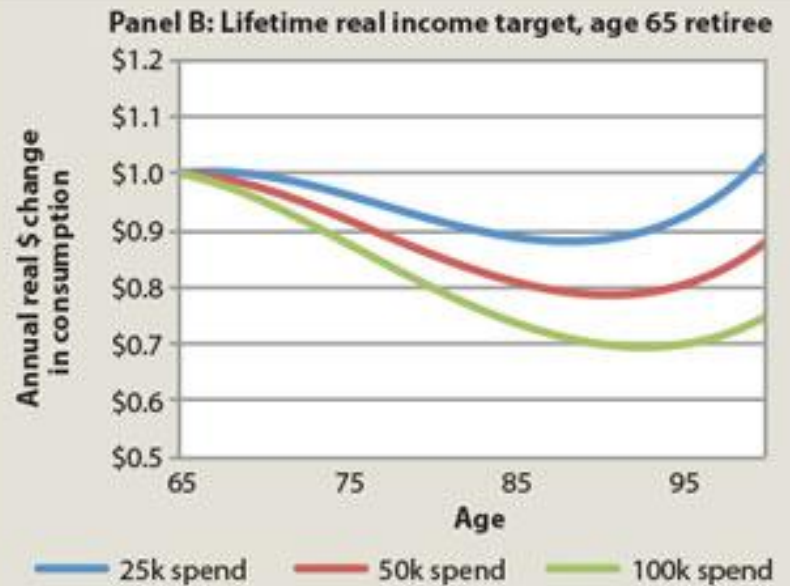
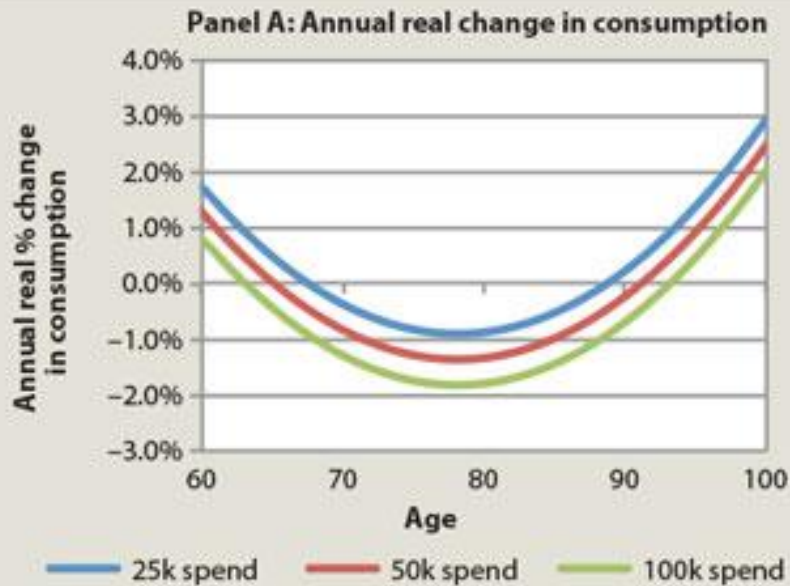
Making it Last

- Keep it simple
 - income needed = desired income - pensions, social security, annuities
 - Remainder comes from savings
- Need a plan/strategy for withdrawals



Retirees Making it Last

Figure 4: Retirement Income Targets



Blanchett, David. 2014. "Exploring the Retirement Consumption Puzzle." *Journal of Financial Planning* 27 (5): 34–42.

Retirement Strategies

- Numerous
- Trade-offs
 - Risk vs. income
 - Income vs. legacy
- There are no do-overs
- Consider the “Sleep at night factor”

Retirement Strategies

4% Rule

- Initially withdraw 4% of savings
 - Can be more conservative
- Grow each year with inflation
- ~85% success rate
- No income reductions
- No upside income
- Not realistic behavior

Retirement Strategies

Floor & Ceiling

- Initially withdraw 4% of savings
- Real spending cannot
 - Rise $>20\%$ above initial spending
 - Fall $>15\%$ below initial spending
- ~92% success rate
- Leaves legacy at the expense of income
- Some upside

Retirement Strategies

Decision Rules

- Initially withdraw 5.32% of savings
- Grow each year with inflation
- Freeze income if negative returns and withdrawal rate is greater than initial rate
- Cut income 10% in first 15 years if withdrawal rate increases 20%
- Increase income 10% if withdrawal rate falls 20%

Retirement Strategies

Decision Rules

- 100% success rate
- Downside is protected
- Greater upside potential
 - Greater retirement income
 - Reduced legacy

Retirement Strategies Comparison

Assume \$1m retirement savings
Median values shown

	Initial Retirement Income	Real Spending in 30 Years	Real Remaining Wealth after 30 Years
4% Rule (using 2.9%)	\$29,000	\$29,000	\$771,110
Floor & Ceiling (using 3.35%)	\$33,500	\$28,480	\$691,770
Guyton & Klinger Decision Rules	\$53,200	\$31,210	\$268,700

Source: Pfau, Wade. "Making Sense Out of Variable Spending Strategies for Retirees,"
Journal of Financial Planning, Oct. 15, 2015.

Retirees

- Maximize the “sleep at night factor”
 - Keep it safe
- Recognize income vs. legacy trade-off

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70+

Start saving!

Don't spend like a millionaire until you are one.

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Keep saving – there will be many other temptations.
Monitor progress.

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Enjoy the fruits of your labor.
Maximize your sleep at night factor.

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Enjoy the journey.