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How Much is Enough? A Simple Formula for Success

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What's your number? It seems that we all have a number in mind, whether realistic or not, that if we get there, our financial future would be secure and we could retire without worry. For many this "number" keeps growing and forever seems out of reach. For some this number is "a little bit more," even though they have long passed their requirements for a comfortable retirement.

After more than 30 years of working with investors and retirees, I have perfected a formula that works for families looking into the future. As you approach retirement and you are taking care of only you and a spouse (children raised and parents are not a financial burden) then the following formula is a realistic target:

- If you have a mortgage free residence that reflects your lifestyle, and you have similar spending and vacation expenses as your neighbors…
- You will need two to three times the value of your paid off home in a balanced and diversified portfolio. That is enough!

I have seen this work well with $200,000, $2,000,000 or $20,000,000 homes. Let's use a $2,000,000 paid for home as an example. The cost for a debt free home is about two percent per year, so this home might still cost $40,000 per year to occupy including taxes, insurance, utilities and maintenance. Furthermore, in Southern California at least, the average household spends about 8 to 12 percent of their home's value a year in lifestyle and tax obligations. You may be living above or below your neighbor's average lifestyle, but if you had income of 10 to 15 percent of your home's value every year, it would be sufficient.

That's where your savings comes in. In this example, if you had a $4 - $6 million investment portfolio earning 5 percent per year, you would have a gross income of $200,000 to $300,000, satisfying your spending requirements and probably a little room to spare. Yes, you will have future inflation, but it will not greatly affect your housing expenses and you have a substantial principal balance to use as well.

Unfortunately, we find many people are in need of lowering their retirement housing/lifestyle expectations and saving more. For those, here are some creative ways you can reach your number. One option is to compress and amortize your mortgage over the years you have left to work so you can have a paid for home at retirement. In instances when accelerating mortgage pay down won't work, we suggest you consider right-sizing your home at retirement. Right-sizing would mean moving to a less expensive home and adding the sales proceeds from the home sale to savings to reach the two – three times savings/home value ratio. A savvy financial advisor can help with decisions and directions on investments to help you

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attain steady returns for income.

The formula works equally well for families that have passed this mark, yet are still unsure about their financial future. At some point, your wealth accumulation crosses this line and becomes more about your heirs and charities than your lifestyle. If you are fortunate enough to find yourself on the excess side of this formula, I suggest you consider gifting the extra soon. Dying with your estate at its maximum value makes little sense with today's estate taxes, which are likely to rise in the future. A good estate planning attorney can help you transfer future growth of your assets to your heirs and/or charities. You can even maintain some control and possibly continue receiving income. The real blessing will be the pleasure of watching your gifts being put to use while you are still alive.

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