

# The Fulfillment Chronicles

## Retirement Economics

April, 2024

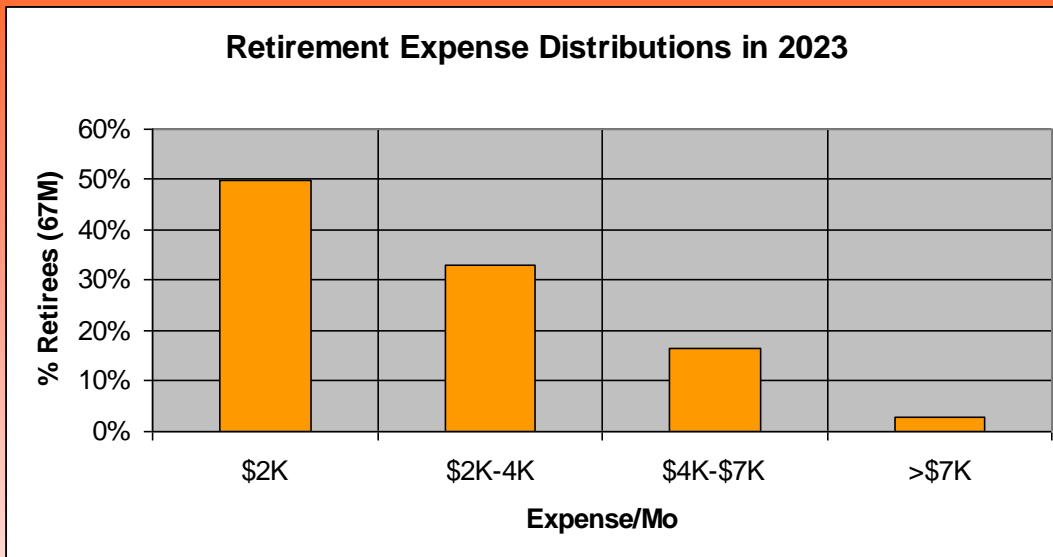
Retirees are especially challenged by the dynamics of their personal economics as employment income declines, investment resources mature, and expenses realign towards the home front, healthcare, travel, and fulfillment activities. One of the most important things continues to be able to afford the life of your choice, and know how to make it happen. It is imperative to know what it costs you to live and to prosper, where your incomes originate, and whether there is overflow or shortfalls in your current situation and in your plans for the future. The following discussion addresses some of the major considerations of the retirement track.

Where do you stand on retirement? If you have paid attention to your advisors and your retirement planning, you may have encountered the following useful thumb rules,

- During the 30s, 40s, 50s, and 60s the **50-30-20 rule** recommends putting 50% of your money toward needs, 30% toward wants, and 20% toward savings,
- Aim to save at least 1x your salary by 30, 3x by 40, 6x by 50, **8x by 60**, and 10x by 67. ([www.fidelity.com](http://www.fidelity.com))
- A good rule of thumb is that your retirement income should equal about 80% of your pre-retirement income (Steve Sexton, financial consultant and CEO of Sexton Advisory Group),
- And follow the **4% rule**. The first year you retire, the rule suggests you can withdraw up to 4% of your retirement savings. Then in the second year, you withdraw the 4% plus a cost-of-living adjustment, which is equal to the rate of inflation. This adjustment is made in each additional year and is added to the previous year's withdrawal. ([www.fortune.com](http://www.fortune.com))
- Beware the dreaded IRS's Required Minimum Distribution from your IRA starting at 72-73. You might want to look at IRA to Roth rollovers leading up to the start of RMDs

Let's benchmark some 2023 retirement economics to inform our continuing discussion.

- Retirees get their income from a number of sources. For some, it's a combination of pension payments, retirement plan withdrawals, investments, Social Security, and ongoing work.
- The average income for U.S. adults 65 and older is \$75,254, which reflects the weighted average that includes the incomes of the wealthiest 1%.
- The median income for U.S. adults 65 and older is \$47,620, wherein half the retirees earn less and half earn more. This figure is often a fairer comparison tool than an average in a highly skewed normal curve.
- Taxes at this bracket are forecast to be 22% of about \$55,000, or \$16,550.
- 67 million draw Social Security, where it makes up the largest portion of retirement income, about 30%. The average monthly Social Security benefit was \$1,827 in 2023.
- Average annual expenses for adults 65 and older are \$48,872.
- The distribution of retirement expenses are (Pew Research Center Data):



- Retirement demographics look like the following,

<u>Age Group</u>	<u>Percentage of Retirees</u>
All adults 55 and older	50.30%
Adults aged 55 to 64	17.10%
Adults aged 65 to 74	66.90%
Adults aged 75 and older	86.70%

- Household net worths which can be mobilized to support retirement are:

<u>Age of family head (or reference person)</u>	<u>Average net worth</u>	<u>Median net worth</u>
Less than 35	\$183,500	\$39,000
35-44	\$549,600	\$135,600
45-54	\$975,800	\$247,200
55-64	\$1,566,900	\$364,500
65-74	\$1,794,600	\$409,000
75+	\$1,624,100	\$335,600

Source: *The Federal Reserve's 2023 Survey of Consumer Finances*

Are you seeing yourself in the numbers, in synchronization, higher, lower, or are you just confused? Well, me too! The best way to sort this to do your own income, expense, and net worth accounting. You can see what the average retiree has in the way of income, expenses, taxes and net worth assets that can be mobilized against retirement obligations. Moreover, with some bookkeeping on your part you can document your numbers and compare it to average performance benchmarks. Knowing this, you have the opportunity to realign your fiscal performance with your retirement objectives, even if those are a bit vague at present. It's also a good periodic performance metric to revisit.

Regardless of our performance heretofore, it's unlikely we are doing everything right. So, let's get a bit of perspective together on the numbers. The only way to change the total income and expense numbers is to generate more income and spend less, however you choose to make the changes.

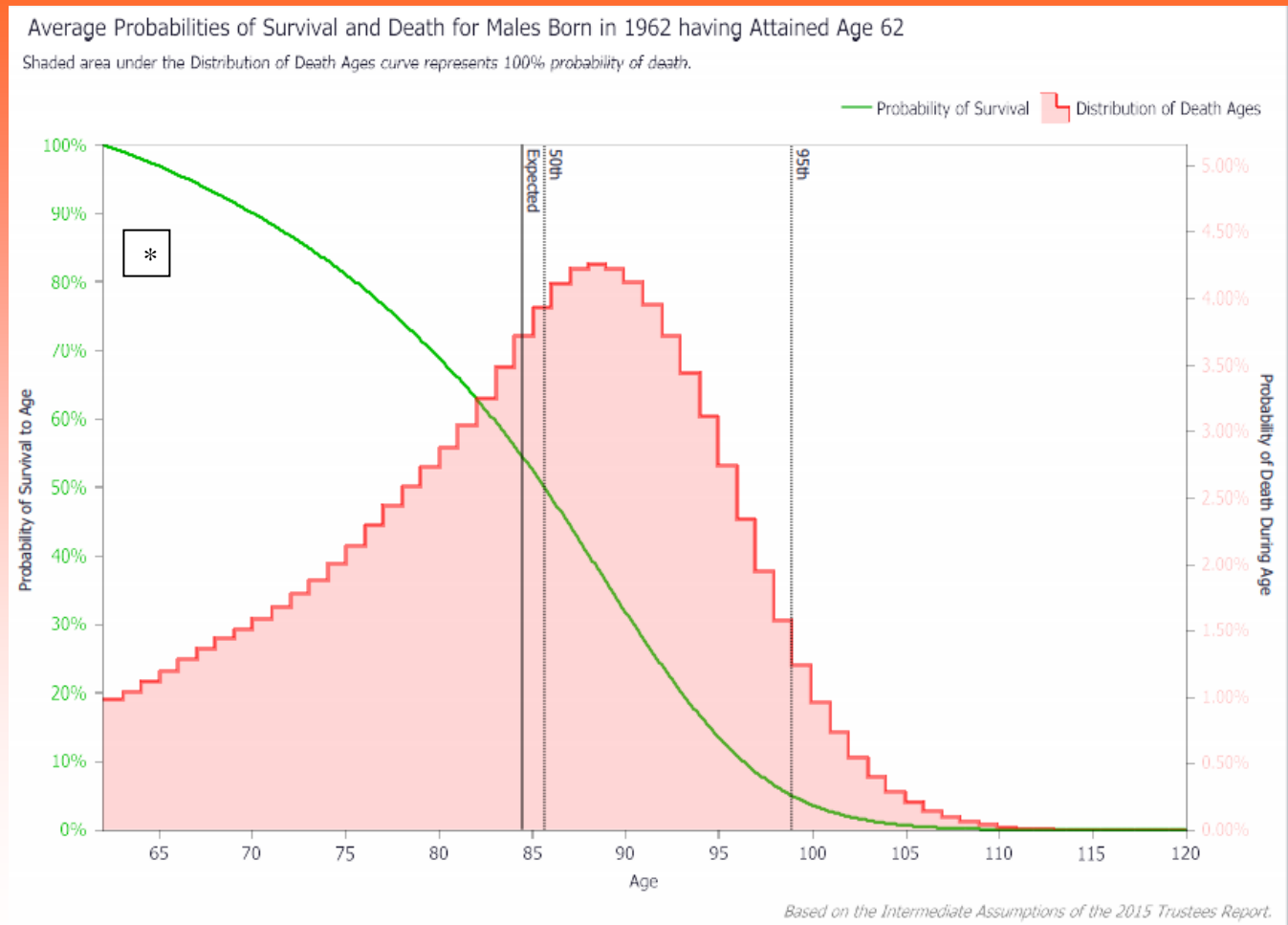
- In income, a promotion or a side gig that leverages or extends your existing talents and knowledge might be the thing. If retirement is a way off, maybe you change your job by joining a new company that values your talents more than present company. If you are a team of two retirees, maybe you stagger your retirements and maintain your health insurance and investments with the employer plans as long as you can. Should you re-optimize your employee benefits plans at higher levels of contribution and return?
- In net worth investments, are you protected, earning enough, and diversified so as to protect your nest egg?
- Under expenses, maybe you could eat out less often by doing more backyard BBQs. The strategic way to tackle expenses is to look at the items that cost you the most to see if anything can be done. Following the Pareto Rule, only the most expensive 20% of line items deserves your attention. Maybe a mortgage refinance and some utility (gas, electric, cell phone, internet, water, cable) moderation and modernization are in order?
- Did you pay off the mortgage? Are your children off the family payroll? Is your cost of living situation appropriate to your upcoming retirement years?
- The more you do these things, the better your Net Income becomes and the more you can put into retirement investments for future needs. Since we rarely live alone you may be called on to do this together and communicate some unpleasant truths. But you will be glad you did and everyone involved benefits in the end.

**Social Security** is crucial for the majority of recipients.

- Social Security is the most common form of retirement income. In 2023, the Social Security Administration (SSA) expects almost 67 million Americans to receive Social Security benefits every month, 48.6 million of whom will be retired workers.
- The average monthly Social Security benefit for retired workers is \$1,681 and is set to rise to \$1,827 in 2023.
- Social Security makes up the largest portion of retirement income, about 30%.
- Current workers will receive Social Security benefits after the **trust fund's reserves become depleted** in 2034, but it's possible that future retirees will only receive 78% of their full benefits ([NPR, 2023](#))

**Longevity.** In order to know how net worth/savings, retirement expenses, and social security work through end of life, one needs to understand one's longevity expectations.

Longevity can be tested online at multiple sources individually. For the purposes of this discussion, we will use [Longevity Visualizer](#) by the US Social Security Administration, which you can access and download for your own use. Here is an example of a male born in 1962, currently age 62, wherein expected demise is at 84 (median 50 percentile is 85), and certainly not much beyond 97 (median 95 percentile). This provides a figure of merit for your years in retirement, one on which you can construct an income and expense plan that fits your wants, needs, and capabilities.



### In Total

Use the reference data to identify your performance versus averages and actions that you need to take. Extend your visibility year by year for the remainder of your expected life to understand income and assets, control of expenses - especially healthcare, cost of living, and so on. Plan accordingly. Live the plan. Re-envision the plan as needed.

Go to [www.lifelongfulfillment.com](http://www.lifelongfulfillment.com) for the eBook, FAQs, Resources, and to subscribe to **The Fulfillment Chronicles**.

## Point Solution Book Review

Robert Zubrin, **MARS DIRECT** and **The Case for Mars: The Plan to Settle the Red Planet and Why We Must**, has done the same for what it will take to send men to Mars, house and maintain them there, and return them to Earth (<http://www.rps.psu.edu/0305/direct.html>) – all of which in derivative form is applicable to the challenges we face. Our very survival as a species may be at stake.

2008-06-05 10:58 In a town hall speech in Florida on Thursday, June 5 quoted extensively by the AFP, Republican presidential candidate John McCain said he would like to see a manned mission to Mars as part of a "better set of priorities" for NASA. According to the AFP, McCain said he "would be willing to spend more taxpayers' dollars" to continue the Shuttle program beyond 2010, but argued that NASA must do a better job of inspiring the American public, as when it sent a man to the moon in 1969. "I am intrigued by a man on Mars and I think that it would excite the imagination of the American people," he said. "We know that now, and here's what may be there and let's all join in that project. I think Americans would be very willing to do that."

## Point Solution Podcast

**Why the secret to success is setting the right goals | John ...** (John Doerr)

**Abundance is our future | Peter Diamandis - YouTube** (with Steven Kotler)

**Gleicher's Formula for Change** (with Richard Beckhard)