

Episode 77: Stop telling people that they need \$1m to retire

Hey everyone,

Welcome to the Winners Ways Podcast. This is where we talk about your career, your money, and we also give life motivation to help you maximize your potentials.

Today, I want to retirement savings and money goals.

If you live here in America, you must have heard some financial experts telling you that you need to save \$1M in your retirement account to retire rich. They will tell you that if you don't have up to that amount, you may not be able to take care of yourself during retirement. And as such, you may start feeling anxious, thinking that you are falling behind based on this superficial figure.

Let's set the record straight here:

I am for planning and saving for your retirement.

I want you to be able to take care of your needs at retirement so that you won't depend on the government.

But I am also sure that everyone does not need \$1M to retire. Some may need much more than that, while others may need significantly less. So what you need to work on is, "how much exactly do you need to save for your retirement"?

This may look daunting to many people. They may wonder, how can I know with all certainty the amount that I will need to save for retirement?

As a certified financial education instructor, one of my duty is to help figure out this question.

So if you ask me 'How much should I have in my retirement account, before I could retire, I will tell you that it depends. It depends on several factors:

1. Where you live (New York vs. Alabama)

Our financial goals vary from one person to another; you may be able to live well on \$2,500 per month with a paid-off home in Tuscaloosa, Alabama. If you are in good health and have no other significant financial obligation, that figure may be sufficient. But your brother-in-law, who lives in San Diego, California, and still has fifteen years to pay off his mortgage, may need significantly more when you both reach the retirement stage.

1. If you have debt at retirement (Mortgage vs. no mortgage)
2. Your health conditions
3. Your lifestyle (Travel vs. not)
4. The age you want to retire (62 vs. 70)
5. Kids in college

Retirement saving goal is not a one-size-fits-all figure, and it is wrong to tell everyone that they must have \$1M in their retirement account before they can retire.

As we are all different, so is our financial goals. Retirement saving is a game of number. It is personal, and it varies from one individual to another.

On today's episode, I will talk about how to figure out how much you need during retirement.

Before we go into the figures, lets quickly define some terms:

1. Retire rich: Having more than enough.
2. Retire happy & Comfortably: You have everything you need to take care of yourself.

I think both are reasonable goals to aspire to achieve. But we need to know what we want. If your goal is to retire rich, you need to have much more than what will take care of your personal and family expenses.

But if your goal is to retire happy and comfortably, you may not need to stress yourself too much or aim for the \$1M figure. And this episode is for people in this category, those who want to make sure that they will be able to take care of themselves and their family at retirement.

To know your figure, you need to be able to have an idea of what your expenses will be during retirement, and this will be influenced by the lifestyle you intend to lead then.

I know you are wondering, hey Bola, are you telling me that I will still need to use budget at retirement? My answer is yes.

So what will be your projected budget?

1. Housing
2. Feeding
3. Clothing
4. Transportation
5. Utility bills
6. Taxes
7. Healthcare
8. Travels

If, at the end of your calculation, all your monthly expenses came to be \$3,500. That means you need to live on \$42,000 per year.

Assumptions?

Retirement age: 65 years
Life Expectancy: 90 years
Monthly Expenses: \$3,500

\$3,500 monthly income translates to \$42,000 per annum drawdown from your investment portfolio. \$42,000 each year for 25 years will be approximately \$1M.

Okay, hold it right there. I just told you that you do not need \$1M, and my calculation is telling you that you need \$1M.

This will be the scenario if you withdraw your retirement savings and keep everything under your pillow. That means if you stop your money from working for you. Most people don't do that.

So with your money still invested, and I will go by the assumption that you are getting about 10% annual return on your investment. That means whatever you will keep growing, even as you are withdrawing money.

Please note, this calculation is based on the assumption that you are getting a 10% ROI. If you get less than that, say 8%, your investment of \$400K will still last for 25 years. But you must not exceed the withdrawal rate.

You need to do your calculation correctly to check if this will work for you. I am not your financial advisor; I do not know your financial situation.

This episode aims to help people think and figure out how to calculate what they will need at retirement. See the show note to read more about how I did the calculation.

To recap, to figure out how much you need to save for retirement, you need to know:

1. How much you need per year
2. Life expectancy.

And with this information, you can make your projections.

I hope you found this episode useful. Till next time again, this is Bola Alabi.

Year	Beginning Portfolio value	Investment Appreciation	Amount Withdraw	End portfolio value
1	\$400,000	\$440,000.00	\$42,000	\$398,000.00
2	\$398,000.00	\$437,800.00	\$42,000	\$395,800.00
3	\$395,800.00	\$435,380.00	\$42,000	\$393,380.00
4	\$393,380.00	\$432,718.00	\$42,000	\$390,718.00
5	\$390,718.00	\$429,789.80	\$42,000	\$387,789.80
6	\$387,789.80	\$426,568.78	\$42,000	\$384,568.78
7	\$384,568.78	\$423,025.66	\$42,000	\$381,025.66
8	\$381,025.66	\$419,128.22	\$42,000	\$377,128.22
9	\$377,128.22	\$414,841.05	\$42,000	\$372,841.05
10	\$372,841.05	\$410,125.15	\$42,000	\$368,125.15
11	\$368,125.15	\$404,937.67	\$42,000	\$362,937.67
12	\$362,937.67	\$399,231.43	\$42,000	\$357,231.43
13	\$357,231.43	\$392,954.58	\$42,000	\$350,954.58
14	\$350,954.58	\$386,050.03	\$42,000	\$344,050.03
15	\$344,050.03	\$378,455.04	\$42,000	\$336,455.04
16	\$336,455.04	\$370,100.54	\$42,000	\$328,100.54
17	\$328,100.54	\$360,910.59	\$42,000	\$318,910.59
18	\$318,910.59	\$350,801.65	\$42,000	\$308,801.65
19	\$308,801.65	\$339,681.82	\$42,000	\$297,681.82
20	\$297,681.82	\$327,450.00	\$42,000	\$285,450.00
21	\$285,450.00	\$313,995.00	\$42,000	\$271,995.00
22	\$271,995.00	\$299,194.50	\$42,000	\$257,194.50
23	\$257,194.50	\$282,913.95	\$42,000	\$240,913.95
24	\$240,913.95	\$265,005.35	\$42,000	\$223,005.35
25	\$223,005.35	\$245,305.88	\$42,000	\$203,305.88
26	\$203,305.88	\$223,636.47	\$42,000	\$181,636.47
27	\$181,636.47	\$199,800.12	\$42,000	\$157,800.12
28	\$157,800.12	\$173,580.13	\$42,000	\$131,580.13
29	\$131,580.13	\$144,738.14	\$42,000	\$102,738.14
30	\$102,738.14	\$113,011.95	\$42,000	\$71,011.95