# WHAT'S YOUR NUMBER?

## HOW MUCH DO YOU NEED TO RETIRE?

# What's Your Number?
# How much do you really need to retire?

A workbook to guide you through the real cost of retirement.

When you're done… you'll know what retirement will cost, and how you're going to pay for it!!

**PRICE: $499**

# You Need this RIGHT NOW!

I want to welcome you to a very elite Club.

You're one of a handful of people who are taking charge of their retirement… really thinking about it and planning for it.

And that's a good thing.

The future is uncertain.  Inflation might make things cost more… rising prices are a drain on everyone.

Retirement income sources are uncertain.  Social Security is going to start cutting back payments in a few years.  And, pensions are a rarity…

I can't tell you how many times I've gotten an email or question at a conference that goes something like this…

"I'm 50 years old… how much should I have in retirement savings"

Or

"I'm about to retire in the next year or two… Will I have enough to pay my bills?"

Or

"I've been retired for a few years… but I'm worried I'm spending my money too fast.  I don't want to be a burden on my kids.  What should I do?"

Some stories are absolutely heartbreaking.  People who worked their entire life, they scrimped and saved and supported their family.

But when they hit retirement they didn't have enough.

Worse still, they didn't know it - until it was too late.

The 90 year old who runs out of money isn't in a happy situation.  You can't exactly go back to work.

My number one answer to all of these questions is simple… **Plan out your retirement.**

Think of your retirement like a long vacation… and you need to set the itinerary.

When you travel, you probably pick a few spots to visit… plan a few side adventures.  You chose where to stay… A fancy 5 star resort… or camping? Then you plan a few meals… A hotdog cart for some… a Michelin starred restaurant for others.

Planning your retirement is no different, and honestly it can be more fun.

But, it's critical you do some planning.

That's why I've assembled this workbook.

It's a guidebook to thinking about your retirement… planning your expenses… and really understanding how you're going to fund that retirement.

I've broken this Special Report down into a handful of important sections. In each, we're going to cover some critical questions you need to ask yourself and really think about.

Section #1 is our 7 Minute Retirement Plan.  In it we cover three cheater methods to determine how much money you need to save for retirement.

Section #2 is where we do a deep dive on retirement expenses… we look at every expense possible… plus some traditionally forgotten expenses!

Section #3 is all about how much you can spend… in order to spend money we have to have income… and many people don't realize some of the income they'll receive.

Section #4 is all about the retirement questions you need to ask yourself… everything from supporting your kids to leaving money to the church!

Section #5 is a tough one. Here, we ask a question many people don't want to think about.

Section #6 is where the rubber hits the road… we put together all the information you've assembled in the first sections and we refine our retirement plans!

This book is chock full of great information.

I recommend you go through this workbook over the course of a few days… DON'T RUSH.

Oh, and don't stress out about this either. This is a general guide, a plan if you will… Think of it as your itinerary for retirement.

Like all good itineraries, it will change over time. Being flexible is important.

As I like to say…

**LIFE HAPPENS**.

You might pick up a new hobby, or decide to move cross country. You might help a friend in need, or spend more time at the church. Maybe you keep busy with a part time job!

This guidebook isn't meant to be a one time read.

You should plan to read through this every few years - and work through the questions and answers… God knows - your answers will be very different from your 50s to your 70s and even your 90s!

The goal is not to scare you, but to make you comfortable with your retirement plans and decisions. I want to give you knowledge and comfort… so you can enjoy your golden years of retirement. You'll sleep soundly knowing you've planned for a future you want!

HERE’S AN IMPORTANT POINT….

Everyone is different.  Don’t be ashamed of it… embrace it!

I know everyone is different and that’s how I put together this book.

We will start off with some “Cheater” ways to figure out how much money you need to save.

Use the cheater method your first time through - it will give you a broad stroke of your retirement plans and needs.

The second, third, and fourth time through this workbook, you can get into the details section… This is where you can add detail upon detail.  Think through different parts of your life adventure.

Maybe that month-long trip to Asia happens when you’re 70… not 75.

Maybe a new grandbaby inspires you to save a bit to help with college.

Update… change… modify this plan to suit your life.

***There is no wrong way, or right way… there's only your way.***

So, let’s get started by quickly calculating what you need to save for your ultimate retirement.

# The 7 Minute Plan for Retirement!

Ok, quick side note here.  I told you I'd give you a cheater method for doing your retirement plan… Well, here it is.

If you gather up all your financial information, you should be able to fill this part out in just 7 to 10 minutes.  It's a great place to start.

Just remember - this method leaves out a lot of detail…

So, what question are we trying to answer?

**HOW MUCH MONEY DO I NEED TO SAVE FOR RETIREMENT?**

Ready?  Let's go…

## Cheater Method #1 - The Yearly Income Model

This is about as simple as retirement planning gets… this is the kind of planning guide you get from most websites and small articles on retirement.

Pull out your pay stub, or last year's tax returns and find your income.

Simply take your current yearly income and multiply it by 10.

| | Example | Your Data |
|---|---|---|
| My Yearly Income Is: | $50,000 | |
| Multiply by | x10 | X10 |
| My Savings Number is: | $500,000 | |

Yep, it's that simple.

If you make $80,000 you should save at least $800,000 before retiring.

When does this not work?

This back of the envelope calculation does **NOT** work:
- If you're already retired.
- If your income is volatile.
- If your lifestyle will change significantly in retirement.

Like I said this is a very rough number… but now you have a target in mind!

I don't want you to settle for a "rough number" let's get a bit more granular.

That brings us to Cheater Method number 2…

## Cheater Method #2 - The Monthly Expense Model

Method number two is a little more detailed. I want you to pull out your credit card statements and your checking account statements.

I want you to add up what you spend in a single month.

What did you charge on your credit card… what did you pay from your checking account?

You want to include everything… your mortgage or rent, your water bill, dining out, the new tennis racket you bought.

One other thing… don't cheat at this… you want to look at your spending - not what you paid.

So, if you spent $2,500 on your credit card, but didn't pay it off in full (or maybe only made the minimum payment) you include the FULL $2,500… not your credit card payment.

Simply take your spending over 1 month… then multiply that by 120.

| | Example | Your Data |
|---|---|---|
| What I spent (Credit Cards): | $2,750 | |
| What I spent (Checking): | $2,100 | |
| Total Spending | $4,850 | |
| Multiply by: | x120 | x120 |
| My Savings Number is: | $582,000 | |

Once again… simple.

Where might this go wrong?

Does your spending fluctuate from month to month?  Think about December - we all tend to spend more money over the holidays… and go out to eat and to parties… and we often travel to see family.

Obviously, if you use your expenses in December, your spending will be higher… and so will the calculation for how much you need to save.

Remember, I don't want you to run out of money in retirement… so be honest with yourself and calculate real numbers.

Serious people will often add up their expenditures for the FULL YEAR and then divide that by 12 to get an average monthly expense.  They then take that total number and multiply it by 120 to figure out what they need to spend.

One other drawback to this method is you miss a lot of details. Like accounting for changes in taxes and spending habits…

As a result, you might save too much, or not enough!

This leads to our next method to determine your retirement needs…

## Cheater Method #3 - Let's Just Guess Model

Look there are lots of other ways to calculate your needed retirement savings.

One alternate method asks you to select a target Retirement Income level… then multiply that by 25 to get your total savings needed.

For example, if you want an income of 50,000 in retirement every year, then you need to save $1,250,000. ($50,000 x 25 = $1,250,000)

All of these cheater methods are very general… and give very different answers.

It's ok to use one of these when you're starting out. But you really need to dive into the financial numbers and calculate what you'll need over time.

Let's put these quick calculation numbers aside for now, and let's start asking some questions.

Let's try and figure out…

# How Much Will Retirement Cost?

Calculating what you're going to spend in retirement is not easy.

If you want to do it right, you need to ask a bunch of questions, think about the answers then make changes and modifications.

Let's just start with the easy stuff…

Let's look at what expenses you'll have in year 1 of retirement… then project 5 and 10 years into the future.

I know it sounds hard, but we'll take it step by step and make it as easy as possible.

# What Are Your Expenses In Retirement?

| **Retirement Expense** | **YEAR #1** | **YEAR #5** | **YEAR #10** |
|---|---|---|---|
| Mortgage or Rent | | | |
| Property Taxes | | | |
| Home Insurance | | | |
| Maintenance | | | |
| Water | | | |
| Electric | | | |
| Cable / Satellite | | | |
| Phone / Internet | | | |
| Yard Maintenance | | | |
| Home Repairs / Maintenance | | | |
| Car Payments | | | |
| Gas | | | |
| Car Insurance | | | |
| Car Maintenance & Repairs | | | |
| Car License & Registration | | | |
| Pet Care Costs (Food & Vet) | | | |
| Meal Expenses (at home) | | | |
| Meal Expenses (Out) | | | |
| Vacation Costs | | | |
| Clothing Costs | | | |
| Beauty Salon / Barbershop | | | |
| Hobbies | | | |
| Other entertainment | | | |
| Health Insurance | | | |

| | | | |
|---|---|---|---|
| Cost of Drugs / Dr visits (Deductible) | | | |
| | | | |
| Long Term Care insurance | | | |
| Life Insurance | | | |
| Umbrella Insurance policy | | | |
| Subscriptions | | | |
| Educational expenses | | | |
| Gifts and Charity | | | |
| Holiday Gifts | | | |
| Holiday Travel | | | |
| | | | |
| **Big Expenses** | | | |
| Support for Kids | | | |
| Support for Grandkids | | | |
| Moving | | | |
| Special Vacation / Family Trip | | | |
| Special Support for a Charity | | | |
| Special Support for a Friend | | | |
| | | | |
| **Special Situation Expenses** | | | |
| Taxes and Withholding (Work) | | | |
| Taxes and Withholding (Retirement Distributions) | | | |
| Other | | | |
| | | | |
| **Total Expenses** | | | |

Once you have calculated your Year 1 Retirement Expenses… hold onto that number.  We're going to use it to help us calculate expenses for the remaining retirement years.

But before we get to that, let me give you some things to think about…

**Mortgage / Rent:**  This is normally a huge expense for retirees as a percentage of your income.

Some people are laser focused on paying off their mortgage.  Others expect to downsize their house in retirement or move into a condo.

If you want to dramatically impact the amount of money you need to save for retirement, wrap your arms around your housing expenses!

For example, someone who needs to continue paying mortgage or rent at $2,000 a month in retirement will need about…  $480,000 more in their NestEgg.

**Car Payments:**  This is another big expense that many don't anticipate.  My goal is to have my cars paid off in full.  I also put aside money to replace them every 10 years in retirement.

So, I'm budgeting to save the cost of a new car every 10 years.

Reality is, I'll probably buy a newer car in my 70s… and drive less and less in my 80s and 90s.

Who knows, by then, personal autos might be replaced by self driving vehicles for us all to use!

**Meal Expenses**:  This is one of those topics where you really need to understand yourself.

For example, I know people who love to cook and eat out.  As they retire, with more time on their hands, I'd expect them to cook at home **more** - lowering costs.

That said, They also anticipate going out to nicer dinners - so the dining out budget might increase too.

**Vacation Costs**:  This is one area I think many retirees underestimate.  Some are homebodies - they're happy being at home.

For others, the wanderlust sets in and they start planning trip after trip - They have the free time, right!

You should examine your own lifestyle and really think about your vacation plans and travel.  It might not change from pre-retirement… or it might change in a huge way!

**Hobbies:**  What falls into the category of Hobbies?

Well, everything you spend money on for one of your part time projects… Let's say your hobby is Golf… Then you'd include all the expenses around that.

The magazines you read, the rounds you play, the new club you bought.  The Golf shirt and matching Hat.  Tees, Golfballs, the tips to the bag boy.  It all counts.

Have more than one Hobby - that's great news… but you still want to record all the expenses (Use a second line!)!

**Gifts & Charity**:  This is an area many people overlook.  We all give something… it might be to your church or synagogue, or to the local elementary school.

Donations to goodwill, a local pet rescue, or the $20 you add to the jar at the local turkey drive.

It all adds up and it's something you want to focus on, so don't forget it.

**Big Expenses:**  This category has a bunch of different parts… like helping the kids or grandkids out.

It includes special support for a charity or a friend.

Most commonly you'll see educational expenses in this category… But sometimes people have "Dreams of a Lifetime" like a special trip to Europe… or a cruise around the world.

Those are big dreams that can and should be budgeted for.

Remember just because you can't afford them this year doesn't mean next year is off the table.  Making these big events happen all comes down to planning!

**Special Situation Expenses**:  This category for anything else in your life we need to account for.

One special situation includes working in retirement.  Working is good, just don't forget to account for the taxes the government will take!

One other area is taxes on the money you take out from your IRA (or other retirement account).  Yes, the government always wants its share… So don't forget to account for the tax expense based on how much money you pull out!

Some of these costs fall away as the years go by… Others like the government tax on our retirement withdrawals will never end.

Ok, let's put a bow on this analysis…

After you've calculated your expenses… you're done… for year one.

## Calculating Expenses In The Next Few Years…

This is where the real work begins.

I want you to look forward over the next 5, 10, and 20 years and start projecting your costs out.

Don’t get stressed out by this… use year number one as a guide and project out year two.  Give things your best guess.

For example, you might realize by year 5 your mortgage is paid off… Pop some champagne and realize your costs will fall.

You might also think about those big “once in a lifetime trips”.  When do they occur… it doesn't need to be year 1 of retirement… Maybe you take the wife to Europe in year 3!

Consider your support for your kids.  If one of them is leaving college - your costs might go down.  If you see them needing financial support to buy their first home, plug that number in too.

Remember, this doesn't mean you need to give them support… but if you budget for stuff like that - it gives you options.

**How far out do you need to go with these yearly budgets?**

I’d say a minimum of 10 years in retirement… then after that you can adjust them for 5 year periods.

For example, I’ve got no idea what I’ll spend between the ages of 90 and 95 (That’s 45 years in the future).  But, I’ve made a wild guess.

Do your best.  Remember we’re looking for round numbers here… not exact to the penny calculations!

**A big question I often get is around inflation.**

We all know costs are going up…

I don’t know about you, but my cell phone bill, my cable bill, and my water bill have NEVER gone down!

The best way to look at this is to calculate your numbers…. If you have 10 years of water bills and you know water costs are up 4% a year - it's probably a good guess water costs will continue to climb by 4%.

What if you don't know?

Then I'd use an estimate of 2% or 3% for most items.  Some will go up more, some less… and you might even find expenses that will fall over time.  Do you really expect to be going on exoctic vacations every year when you hit your 90s?

Looking at these expenses over the years, you should notice something…

You should see your cost of living stay within a range.

If you're used to spending $40,000 a year… more than likely you'll continue spending $40k a year give or take a few thousand dollars. (climbing in cost over time)

This will help you understand your spending habits and plans for the future.

At the end of all this work, you should have a spreadsheet outlining your expenses from year to year.  You should see big expenses you've planned for (like a car or buying a vacation home).  You should have a rough idea of what it's going to cost to live when you're 70, 75, 80, 85 and even 90!

Now that you have a plan for your retirement and what you think it will cost, now we can look at what you can actually spend.

# How Much Can I Spend In Retirement?

I know what you're thinking…

We just calculated all of our expenses… How is that different from calculating what I can spend in retirement?

I’m glad you asked.

Just because you planned to spend the summer in Europe every year… doing the grand European Tour… doesn't mean you can actually spend your savings that way.

Remember you might have built in expenses, travel, support for friends, family, grandkids or charity… and you might have bitten off more than you can chew.

Here’s the reality check.

# What Sources of Income Do I Have?

Alright - this is going to get either really fun, or really scary.

What we need to do is figure out what sources of income you’ll have in retirement.

Your sources of income will fall into a handful of categories:

- Income from Work
- Pension Payments
- Social Security
- Income from Retirement Accounts
- Income from Other Investments

These categories I just outlined will cover the vast bulk of income most people will see.

**Might you have another source of income?** ***Of course.***

Maybe you own a private business that pays you cash without working… Or maybe you have royalties on a hit song, or some patent you developed. Maybe you get royalties from a book you wrote.

Those are all other sources of income too.

Our goal is to simply tally up the various sources of income you have coming to you in retirement.

## Income From Work…

I know what you're thinking… Work? *I thought I was retired!?!*

Excellent point.

Normally people retire, and they quit work. But over the last few years, there's been a trend of people retiring… but still holding on to a part time job.

According to a survey by FlexJobs.com 27% of people planning to retire expect to continue working part time in retirement. Believe it or not, 19% of current retirees hold a part time job.[1]

I'm sure many do it to make a little extra money… Others do it to stay mentaly sharp.

I'm sure others do it simply because they're bored in retirement.

Regardless of why you work, if you're part of the 27% who plan to have another job during retirement, this is where you tally that income.

**SIDE NOTE:** If you have a part time job, don't forget to account for job related expenses. Things like taxes, and other withholding will show up, and you should list them on your expense table.

## Income From Pension Payments…

*No pension? Skip to the next section…*

Not many people have pension plans these days… but if you're one of the lucky ones, now's your chance to see what you've earned.

[1] www.flexjobs.com/blog/post/10-stats-about-retirees-and-work

Reach out to the pension fund manager (start with Human Resources at the company you work/worked for) and ask them what your options are.

Some funds will simply make payments to you every month for the rest of your life.  Others might offer you a “Lump-Sum” payout.

If you’re getting monthly payments, ask them when they start, how long they last… how much they are… and if they change over time (are they indexed for inflation).

That will give you all the information you need to know your income from your pension.

What About Lump Sum Payments?

If you’re offered a lump sum payment, you have different options.

I think the best thing to do is take your lump sum and invest it in dividend paying stocks.  You should earn between 2% and 5%... and see those payouts and principal grow over time.

You’ll probably find in the long run, you’ll do better with this investment strategy… rather than just taking monthly payments!

Do the math and you’ll know pretty quickly which option to take.

For those of us without a pension, you might have…

## Income From Social Security…

OK, this is a very contentious topic for many people.

Personally I believe I will NOT receive a single penny from Social Security.  I really hope I’m wrong… but I’m planning for the worst.

While I’m working hard to not be reliant on the government for Social Security payments… that’s not the case for everyone.

You might already be collecting Social Security… or about to!

Or, maybe you’re a believer the government will come through in the end and do the right thing.

You get to decide how much… or how little to rely on Social Security in your retirement.

That said, let’s look at what the numbers might look like.

**How to calculate your Social Security payout**

If you are already retired, you already know what your monthly income is. Just jot it down on the table below…

If you’re not yet retired, you have the option to pick when you start receiving Social Security.

- Born before 1954 and your retirement age is 66.
- Born after 1955 and BEFORE 1960, the retirement age increases gradually to 67.
- And, if you were born after 1960 the retirement age for the rest of us is 67.

You can actually take early Social Security at age 62… but your payout amounts will be smaller.

And if you delay taking Social Security until age 70, your payout amounts will be bigger!

*Lots of decisions, right!*

It’s always a trade off… but for every year you defer taking Social Security, your payout should grow by about 8%. At a minimum, I’d recommend trying to hold off taking payments until at least full retirement.

Now the million dollar question is how much will you get!

Try out this simple calculator: [https://www.ssa.gov/OACT/quickcalc/](https://www.ssa.gov/OACT/quickcalc/)

You simply plug in your birthdate and your earnings this year. Leave the retirement date blank, and it will calculate for you the amount of your payout.

For example a 50 year old this year, making $50,000 a year could expect to receive approximately…

**Information you submitted**

| |
|---|
| Date of birth: **6/15/1972** |
| Current earnings: **$50,000.00** |
| Benefit in **year-2022** dollars |

**Retirement Benefit Estimates**

| Retirement age | Monthly benefit amount [1] |
|---|---:|
| 62 and 1 month in 2034 | $1,177.00 |
| 67 in 2039 | $1,750.00 |
| 70 in 2042 | $2,222.00 |

[1] Assumes no future increases in prices or earnings.

As you can see, the difference between taking early retirement and waiting till age 70 results in more than a $1,000 a month difference in payments.

The only problem is the SSA has estimated they will run out of money in 2035. As a result, they expect payouts will be cut to 70%!

If you think the government will get its act together and fund the SSA, go ahead and use the full amount.

If you want to be conservitive, calculate a 70% payout…

And, if you're thinking the worst is still ahead, you can assume you'll get nothing, and be pleasantly surprised if you get something! (That's what I'm doing)

So, calculate your estimated payout when you start retirement, and jot that down in the table below.

There are still other sources of income…

# Income From Retirement Accounts

If you've been saving for retirement for some time, you'll probably have an IRA, a Roth IRA, a 401K or other similar tax deferred retirement plan.

How soon can you take money from your retirement accounts?

Once you reach age 59½, you can start to withdraw funds without restrictions or penalties!

Want to let that money continue to grow tax free for a while… Don't wait too long.

According to the IRS, here's the withdrawal rules…

> *You generally have to start taking withdrawals from your IRA, SEP IRA, SIMPLE IRA, or retirement plan account when you reach age 72 (70 ½ if you reach 70 ½ before January 1, 2020). Roth IRAs do not require withdrawals until after the death of the owner.*

Why is this important?

Because the government is going to force you to take money from your retirement account and pay taxes on it.

Here's a quick link to the IRS website on how to calculate your RMD: [https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions](https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions)

Remember the RMD is just the minimum. You can always take more money out of your retirement counts if you want to use it!

This income will be yours to spend… so add it to your income table.

However, don't forget whatever money you take out will be taxable.

Here's a hot tip… If you have a retirement account, make sure the money is invested the right way!

So often I hear of people FUNDING their retirement account, but never investing the money.  Please don't make that mistake.  If you can, invest in quality dividend stocks.  Or at the very least a market tracking index fund.

Ok, one last comment…

You can take out as much money from your retirement accounts as you want. Heck, year one you can withdraw the whole balance.

BUT, you'll be stuck paying a tax bill on the money you do pull out of the account.

Most investment advisors use the "Rule of 4%"...

It's just a rough guide that says if you want your retirement account to last your entire life - and never run out - don;t take more than 4% of the total balance.

I've got a different take - I think if you're in solid growing dividend stocks, you can pull out up to 5%... and if you really know what you're doing (and have it all budgeted out) you can pull out even more!

Bottom line, I think if you invest your retirement account in a basket of great Dividend Stocks, you should be able to withdraw up to 5% a year.

Are there other sources of income in retirement?

# Income From Other Investments

I don't know about you, but I don't have a pension… and I think that the SSA will go bankrupt before I get a shiny penny back.

I've been maxing out my retirement accounts… but I'm worried it won't be enough.

As a result, I've made a few "Other Investments" that I expect to pay me as I get older.  I recommend that if you have the opportunity, you should develop a few "Other Investments" too.

So, what are "Other Investments"?

**A perfect other investment is rental property.**

A friend of mine owns 2 small rental homes… he's not exactly a real estate mogul… but he's managed to almost pay off the mortgages in full.

When he owns these 2 small rentals free and clear, he'll have a nice $2,500 a month in spending money.

Better still, he's been slowly raising rental rates over the years… so as he gets older, his payout will continue to go up.

Not bad.

Here's another option…

**Buying dividend stocks.**

I don't just own dividend stocks in my retirement accounts… Oh No!

I've added them to my "Trading Account" too.

You see, whenever I have a little extra money, I toss it into my trading account. It's a brokerage account with a big named firm.

They give me something like 20 free trades a year… so what do I do?  I buy more dividend stocks.

The regular cash flow is nice, and I can pull the money out at any time - penalty free.  Now I need to pay taxes on the dividends I receive, but it's a small price to pay for the piece of mind I have owning these extra income producing stocks!

Because I know you're curious… I calculate the returns on my investments in dividend stocks to average about 5% a year.

I own some dividend stocks that pay more than 5% - others that pay less.  But, on average, I'm targeting a 5% return on my money.

And let me answer the next question before you even ask it… YES, every time I get a dividend payout, I use the cash to buy more dividend stocks.  (I like it when my money is working hard for me!)

**Are there other forms of "Other Income"?**

Of course.

I know people that own Oil & Gas wells, or get royalties on mineral deposits. Some own MLPs that pay them on a regular basis.

Others own Patents, or get royalty streams from inventions.  You could own a book, a film, or get music royalties…

Some own interests in privately run businesses that pay out dividends too.

The other income category is very wide… basically anything that pays you on a regular basis gets included in this calculation.

Just be careful not to OVERESTIMATE your income streams… it's better to be a smidge light.  Estimating the wrong way means running out of money - and we don't want to do that!

Ok, we've covered a bunch of income sources you might have in retirement. Most people will have a retirement account, some type of social Security payment, and maybe some other income to include.

When you have that all figured out, add the information to the table below!

| Sources Of Income | | |
|---|---|---|
| | Year #1 | Year #5 |
| Income from work | | |
| Pension Payments | | |
| Social Security | | |
| Retirement Account Income | | |
| Other Investments | | |
| **Total** | | |

Now, once you've calculated your sources of income for year one… start looking at the next few years.

Consider some classic situations… while you might work part time in your 60s or early 70s… are you really going to head into the office in your 80s or 90s?

Some pensions, like the Social Security Payments, should have small COLAs - or cost of living adjustments… where the payout increases over time.

So, if you're feeling strong, you can add those increases into your numbers over the years.

The nice thing about holding Dividend Stocks in your retirement accounts and "Other Investment" accounts is the payouts should increase over time.

For example, many solid dividend stocks have a long history of increasing their dividends over time.  Which means more cash flow for you to spend in your future!

By now, you should have a solid understanding of what your cash flows will look like in retirement.  You'll have calculated your income not only in year #1 but ideally for the next 10, 20 or even 30 years!

What's next?

*Let's make sure we think of everything…*

# Have You Thought About This in Retirement?

As you start thinking more and more about your retirement, and the years of joy you'll have… it's important to consider other big questions.

**You need to think about the following…**

- What happens if you get sick and need advanced care or home care?
- What happens to your income streams (Pension or Social Security) if you or your wife dies?
- What happens if you want to support a child?
- Do you want to leave money to your family after you pass?
- What about leaving money to your church, a school, or another non-profit?

All of these decisions will impact how you manage your money in the future.

Let me share a simple story…

One family I know had a treasured cabin in the woods.  The entire family loved the cabin.  The grandparents had bought the cabin over 40 years ago.

There were two big things they wanted to make sure of… First, that the cabin stayed in the family for the next generation… and Second, that each of their 3 kids got an equal share of the leftover money.

When the cabin was appraised, it was valued at over $300,000.

They knew leaving it to all three kids might create a problem. Even the closest of families can have disagreements over what to do with property or money. So, the plan was to leave the cabin to one child, and make sure the others received an equal payout of cash.

That meant, the grandparents had to be sure that they had at least $600,000 EXTRA in their retirement when they died.

This would allow them to pass the $300K cabin to Child #1 and give Child #2 & Child #3 - $300K cash… each!

Luckily, the grandparents had saved and invested their whole lives (They owned dividend stocks!). They knew they'd pass along a big chunk of their savings onto their kids. They planned for it and made it happen.

Can you imagine what would have happened if they didn't plan ahead?

Here's a quick story on what happens when you don't plan ahead…

I know one family where the grandparents left a chunk of land to 4 brothers. The 4 brothers, a few years later, started arguing over what to do with the land. Two brothers wanted to sell, two brothers wanted to hold onto the land.

They couldn't come to terms with a possible sales price, despite several appraisals.

A once tight family crumbled into warring factions. They no longer spent the holidays together.

They avoided each other at church.

When the lawyers were brought to the table, it became all out war.

They spent 12 years in litigation… and millions of dollars.

After all that fighting, the family land had to be sold, and the family was destroyed.

This is why planning for the future is so important.

I know I've asked a lot of tough questions… but the next one is the most difficult of all.

## The Question Nobody Likes…

This is a question that nobody likes to ask.

I don't know a single retirement professional or money manager who asks this question.

*Here we go.*

**How long do you really expect to live?**

"Forever" is not an answer. "Till I Die" - not an answer either.

Think about it.

Do you think you'll live to your late 70s? Or late 80s… or 90s? Will you make it to 100?

What about living until you're 110?

This is a VERY difficult question because of all the other things it implies. How good or bad is your current health? What about genetics and family lifestyle?

Do you have a history of relatives living to their late 90s or early 100s?

Or do you see parents, aunts and uncles kicking the bucket in their early 70s?

Like the famous saying goes… *"God laughs as we make plans…"*

But, it's important we try to plan.

One of my friends has a family history of longevity. Three of his grandparents made it to 99 years old, and his great grandmother lived to 104.

He's got no idea how long he'll live, but he figures with advances in technology, science and healthcare… **he might live to 110.**

*Crazy? Maybe… Maybe not.*

He realizes, if he lives that long, he'll probably be in an assisted living facility for at least 10 if not 15 years. And you better believe he's budgeting for that!

In his case, he's piling up savings as quickly as he can.

Another friend has never had a relative live into their 80s…. He's hoping to be the first. But the idea of being around into his 90s and 100s is a joke to him.

He's planning to spend his cash early - so he can enjoy it.

He's got a safety net, so if he does end up living longer than expected, at least he won't run out of money.

What about you?

How long do you expect to live? How long do you expect your significant other to live?

Planning for a long life can be exciting… It can also be challenging!

If you believe you'll live to 100… then you need to plan your budgets out that far. You need to make sure your savings will outlast you…

OK, enough about death.

Let’s start putting all this data together!

# How To Put It All Together…

OK, this chapter is where we’re going to put all of our hard work together into a masterpiece.

Let’s start with your retirement income…

At the top of a piece of paper I want you to note what your total income level will be for the first 5 years of your retirement.

Write it out, Left to Right… Year #1, Year #2… all the way to Year #5

Then I want you to take a moment and write down your total expenses that you’ve planned out over the same 5 years.

Then let's do a little math.

At a minimum, your expenses should match your income.  Ideally, you’ll have a little more income than expenses.

So let’s say you do this exercise and you figure you’ll have $3,425 a month in income… so $41,100 a year.

What do your expense items look like?

If you’re planning on spending $3,000 a month ($36,000 a year) you’re sitting pretty - and can probably do some other exciting things with your money. (More travel!?)

HOWEVER…

If you subtract your expenses from your income, and you are spending more than you make… we have some work to do!

If you're calculating $41,100 a year in income, and you're planning on spending $5,000 a month ($60,000 a year) you're going to have a problem.

You won't be alone.  Most people have it in their head they'd spend more in retirement than they actually can.

So, you've got two things you can do.

You can pull out the knife and start cutting back on planned expenses… Or you can save more for retirement!

Let's pause for a moment and think of all the problems we just avoided.

You've just identified a huge problem in retirement (running out of money).  And because you identified it early, you can make changes now.  You can modify your planned spending or save more… or work a few years longer.

Simply by doing this exercise, you managed to sidestep a major problem many retirees don't even see heading their way!

**Let's dig into some simple cost cutting solutions.**

To cut costs… Maybe you realize paying for the grandkids college is a great idea, but not practical.  Remember, they can borrow for college - you can't borrow for retirement.

Maybe you don't support your church or favorite non-profit as much in the early years.

You can look to cut other expenses as well.

One of the biggest costs of retirement is your housing expenses. If you haven't paid off your house - consider working hard to get that paid off before you retire. Another option is planning to downsize your house after retirement, cutting costs.

**What can you do if you're not yet retired?**

If you're not retired, this little exercise should be very eye opening.

You'll be seeing where your money is coming from… and more importantly where it's going.

If you have a major discrepancy in your spending vs income… It's better to know that now - than five years after you retire!

The biggest thing you can do right now is work to lower your costs in retirement. Like I said, find expenses you can cut to the bone.

Another big thing you can do is continue working for a few more years. The extra income can be saved.

The other big thing you can do is save more money. Make sure you're maxing out your retirement savings. Start putting every extra penny you have into your savings account.

Don't forget to build that "other" savings account and really save some cash.

**PRO TIP:** If you still want to support your favorite charity or religious organization, consider leaving them money from your estate after you pass away. You'll save on regular cash outflows… and you'll make one big meaningful contribution. This way you don't risk running out of money. Remember, you can always support them in other ways - maybe you volunteer your time as well!

So, now we get to the big question everyone always asks…

**How much do I need to save for retirement?**

We've got all the numbers, so let's do a little calculation.

# Calculating How Much You Need To Save…

This is for all the people out there not yet retired… but you're working through this exercise to really see if you can retire…

OR you're trying to figure out if you can RETIRE EARLY!

Here's how to figure out what you need to save.

Simply look at your expenses in retirement… then figure out your Income from Social Security and/or your Pension.

Then calculate the difference.

Let's say you expect to spend $36,00 a year in retirement, and you figure Social Security will provide $24,000 a year.

That means, you're on the hook for generating $12,000 a year in income from your retirement accounts and other savings.

You should expect your investments to return around 5% a year. Simply take the amount of money you need ($12,000) and divide it by 0.05 (or 5%) …

So $12,000 / 0.05 = $240,000

You'll need to save about $240,000, and invest it in dividend stocks yielding around 5%, to generate $12,000 a year in regular income.

How might it work without Social Security?

This example is for all you EarlyBird Retirees…

Let's say you're 40 years old, and it will be decades before you get Social Security. How much do you need to save to retire early?

Let’s start with your yearly expenses… if you expect to spend $40,000 a year, then let’s plug that number into our formula:

So $40,000 / 0.05 = $800,000

If you want to retire early with a $40,000 a year income, you should be working to save about $800,000 in your savings accounts.

It’s great to have a goal, but sometimes it’s just not possible to save more…

## What If I Don’t / Can’t Save Enough?

I know the feeling.

You’ve got a hollow pit in the bottom of your stomach.

You just realized your savings are not going to pay for your retirement in the way you want.

Working longer isn’t an option… Maybe you’ve been offered early retirement… or you’re just too worn out to work more.

You’ve cut your costs to the bone.

You’re looking at every option and nothing is there.

It’s time for tough love.

You’ve got to watch every single penny.  And you’ve got to spend some of your principal.

Up until now, I’ve only given examples of spending your dividend income.  But in some extreme cases, you’ll need to dip into your principal and use that cash for expenses.

I’m not a big fan of spending principal.

If you're in that situation… Maybe you had a big medical bill that wasn't covered by insurance. Maybe one of your kids needed extra help getting established, or out of trouble. Maybe you had to stop work a few years early because of a health issue…

Regardless of the cause, you can dip into your principal to pay your bills.

But you're setting yourself up for possibly running out of money at the end of your life.

Step one is to really cut your spending to the bone. No eating out. No vacations. No new "Upgrades" to the car. You're only spending money on the essentials.

Then you've got to take a serious look at your living arrangements. You might need to sell the house, or move in with the kids… or take on a roommate. It sucks, I know.

The last step is to spend down the principal. Let's say your Social Security covers some of your living expenses, but you have another $1,000 a month ($12,000) in costs you need to pay.

If you have $200,000 in savings, it should throw off about 5% - or about $10,000 a year. That means you're still short $2,000. So you take it from the principal.

That means in year 2 you only have $198,000 in stocks generating a 5% dividend… or $9,900 in income. So in year 2 you take another $2,100 from the principal, leaving you with $195,900.

Your balance will continue to shrink and shrink and shrink.

This is a very dangerous place to be, as you'll be risking your financial security in your older years.

Can it be done - YES… but like I said, you'll have to manage every single penny.

OK, enough gloom and doom.

Let’s talk about something exciting like…

## Creating Generational Wealth!

One reason why I don’t like spending my principal, is that money can be used by future generations to create “Generational Wealth!”

Normally that’s a term used by the ultra wealthy.

But if you start thinking longer term, your grandkids and great grandkids will know who you are… because you started the family fortune!

Here’s what I mean.  If you can let your nest egg grow and only spend the dividends, you’ll never run out of money.

Save $250,000 and it should throw off $12,500 in regular dividend income… every year… year after year!

Better still, only spend a part of the dividends every year… and reinvest the rest… and let the principal grow… and now you’ve discovered the secret to life changing wealth for your family.

If you can get by without spending the principal, you’ve got yourself an amazing start to intergenerational wealth.  The balance on your money will grow and grow and grow.

Now you need to teach your kids the importance of never spending the principal. They will teach their kids, and so on… You’ll have started a family line of wealth that won't be broken.

# Start Today, and Share with A Friend…

I know this workbook has been long… It was probably a lot longer than you expected.

We did some serious work, and asked some tough questions.

We analyzed our spending habits, and figured out what our retirement will look like (and cost).

We spent time talking about different income streams you might see in retirement. We covered working part time, pensions, Social Security, retirement accounts, and other income streams.

Overall, we developed a good look at how you plan to bring in income in retirement… and how you plan to spend your money in retirement.

This brought us to the ever important "what to do if we spend too much… or too little." We talked about cutting costs, and saving more… and what to do if neither of those options is possible.

We ended with a discussion of generational wealth… and how to build it for you and your family and the generations to come.

You'll notice, we didn't spend a lot of time on one important topic… as a matter of fact, we didn't discuss it at all.

**INVESTING YOUR RETIREMENT DOLLARS.**

I left that part out on purpose. You know I prefer to buy dividend stocks… but I didn't tell you why. Or explain how to pick dividend stocks… or how to match them up with your expenses… to pay for your retirement.

That's why I wrote the companion book "A Radical Way To Live Off Dividends!"... and that's why I Launched the Dividend Tree Newsletter.

As a paid up customer of the Dividend Tree newsletter, all of these special reports are free.  Plus every month you get my favorite dividend picks.

So make sure you read everything we publish… It could literally change your life!

Good Investing,

Karl Baumgart

Editor
Dividend Tree Newsletter

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