How to Avoid Outliving Your Money

Description

No one wants to outlive their money, but millions do just that every year. It's one of the worst things that can happen to your financial life. After decades of scrounging and saving, your efforts came up short.

Everyone always talks about retirement saving in a positive light. If you save enough, they say, you can stop working and focus on the aspects of life that you love. What few mention, however, is the negative aspects. If you don't properly plan for retirement, you could end up returning to work or drastically cutting back on your lifestyle.

Don't let this be you. With two simple tricks, you can ensure you're never surprised with an impossible choice late in life.

Know your number

How much do you need to retire comfortably? It's amazing how many people don't have a well-reasoned answer to this. Instead, most blurt out a number that sounds good, often somewhere between $1 million and $10 million. But which is it? How confident are you in that number?

If you don't know your number — that is, exactly how much you need to save in order to retire comfortably for the rest of your life — do the math today.

Typically, I recommend using a conservative 5% annual withdrawal assumption. If you have $1 million saved, that means you can withdraw $50,000 per year without imperiling your future.

Some advisors recommend a 10% assumption, but if you stick with 5%, you'll dramatically reduce your odds of outliving your money.

Tally up how much money you'd like to have each year during retirement. Feel free to go as bare bones or as lavish as you'd like, then simply multiply that number by 20 to determine your "number." If you'd like $70,000 in passive income per year, for example, that means you'll need to accrue $1.4

million to retire with zero worries.

Do future math

Now that you know your number, how do you get there? All it takes is a little future math. What's future math? It's the best way to figure out how to invest.

There are several future value calculators available on the internet. These allow you to play with certain assumptions and determine how much you need to be stashing away.

There are a few key variables, typically your starting investment amount, your expected return, and how much you'll be contributing every year.

Companies like **Fairfax Financial Holdings Ltd** (TSX:FFH) have been delivering 17% annual returns since 1985, but I typically recommend using a conservative assumption for annual returns, something around 8%.

Let's say you have $0 to your name but need to reach $1.4 million in savings after 40 years. Assuming an 8% rate of return, you'll need to invest $5,000 per year. That's it! Simply keep stashing away $5,000 per year and you'll retire without worry.

If you're planning a bit later in life, the math is a tougher, but still doable. Let's say you'd like to retire in 20 years, have $40,000 in savings, but eventually want to reach the $750,000 mark.

Assuming the same 8% annual return, you'll need to invest around $11,000 per year. That's a stretch for some, but it's your only option if you're playing with just two decades. As always, time is your biggest ally *and* your biggest enemy.

If you don't want to outlive your money, do these exercises regularly. Know your number by heart and run scenarios on how to get there using future math. If you can commit to the math, you'll just need to stuff your portfolio with wealth-generating stocks and wait.

CATEGORY

1. Investing

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1. Investing

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