Keys to a Great Retirement

Wayne Burritt | *Wednesday, November 30, 2016 at 4:00 pm*

One of the things I enjoy doing with my wife is just getting in the car and driving. We've done this throughout our entire marriage, over 30 years now. It's a fun and inexpensive way to get out of the house, talk about stuff, and *just be* with each other.

Over the recent past, a common topic of discussion during these excursions has been our retirement. And together we came up with some warm and fuzzy — and not so warm and fuzzy — keys that we think will make our retirement secure.

On the warm and fuzzy side …

First off, we want to be together. We don't want to spend a lot of time doing separate hobbies or going on trips without one another. I really enjoy being around Debi — and I think she does me — and we want that to continue.

Second, we want to keep to a schedule. Staying active is something that we have to do to stay healthy. The idea of sitting around and doing nothing — except in small bits — terrifies us both.

Third, we'd like to travel more than we do now. But unlike a lot of our friends, we don't have huge travel goals: Just to every now and then get out and see more of the world.

Lastly, we want to remain flexible on what goes into this warm and fuzzy list. Maybe that means pursuing new passions, getting a part-time job, or volunteering. We don't know. What we do know is that any changes need to be included on the list.

Now, the not so warm and fuzzy …

I've been in finance since I graduated from college over 35 years ago. I've been a bookkeeper, senior credit analyst, stock broker, financial writer, and, now, financial editorial director. I've done just about everything you can with numbers, money, and investing.

So, you're not going to be surprised when I tell you that I've modeled our retirement finances to the nth degree. I've probably even overdone it a bit. But no matter, here's a backstage look at what I do …

A good spreadsheet can help with retirement.

1. **In my retirement excel spreadsheet**, I have our sources of income across the top. Since we're both still working, these sources include our salaries. But as I build the spreadsheet out into the future, those income sources drop off and other

sources are added in, including Social Security and income from our nest egg. Then, I simply add up all those sources of income.

2. **Below our sources of income**, I have our estimated expenses. These include things like groceries, spending money, and medical expenses. You can drill down as deep as you like into this detail. I recommend going only as deep as you can *without making yourself crazy.* I add up all these expenses as well.

3. **Each column on the spreadsheet** pertains to a time period. For shorter-term planning, a month is a good idea. For longer term, years are best. I structure the spreadsheet on a cash basis, with each column inheriting the prior ending balance.

4. **I project this spreadsheet** as far into the future as I think Debi and I are going to be on the planet. I figure mid-80s is a good enough number. Once you've completed that step, the heavy lifting is pretty much done.

So, what did we see?

We naturally began to see retirement deficits when we both stopped working and started our Social Security benefits. And the shortfalls were pretty eye-opening.

Fortunately, we started this planning process a while ago. And that gave us a bit more time to decide what we were going to do. Here's what we did …

First, we cut expenses. The fact is, we simply can do without a few of the things we enjoy while working, like eating out more than once a week and cutting back on our personal spending. And that's helped the budget. But it hasn't been the biggest help to our deficits. That's why …

Second, we realistically estimated our nest egg and how much we are going to make from it.

Third, in our retirement spreadsheet, I carved out a section of it and listed our retirement assets on-hand today. Then, for each of the columns where we planned income and expenses, I estimated how much those assets were going to increase until retirement. Then, once I got to retirement, I estimated how much retirement income our nest egg could potentially throw off. I plugged that back into my retirement deficit.

The result? Probably no big surprise here: We were pretty close to erasing the deficit. But — and this is a big but — a lot of that depends on *how much retirement income we could get from our nest egg*.

A good rule of thumb: Well, frankly, I don't have one.

With interest rates at nearly zero, plugging into the calculation the average rate on a CD — which currently stands at just 3/10 of 1% — makes the numbers terrible.

To improve things a bit, you could also use the current yield on the S&P 500 (2%). Or even better, the average return on the S&P 500 over the last 10 years (9%). But with the S&P returning just over 1% last year, relying on historical numbers gets tricky.

Our solution? We just use a blended return of 5%. That's not as depressing as a CD or last year's S&P, but it's also not as rosy as the longer stock market returns. And we adjust that number as we march through time.

Once we got through this process and plugged in our numbers, we had this neat little plan.

But we immediately learned that it could change dramatically in the blink of an eye: One of us could get sick … we could lose a job … we might have to move unexpectedly. Who knows. The important thing is that we have a blueprint.

And just as important, we continue to take those drives we enjoy so much.

Until next time,

Wayne Burritt