KEEN ON
RETIREMENT

How Much Do You Need to Retire?

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hey everybody. Welcome back to another episode of Keen on Retirement. I'm your co-host, Steve Sanduski and I am here with Bill Keen and Matt Wilson. Gentlemen, how are you doing today?

Bill Keen: We're good here, Steve. We had quite a nice day yesterday watching the PGA golf outing. We weren't there personally, weren't we Matt, but Missouri did get some pretty good national recognition at least over in St. Louis.

Matt Wilson: Did you watch it, Steve?

Steve Sanduski: I did. I turned it on. Watched about the last hour of it and yeah, it was exciting. You know, Tiger Woods, he's back. He's done pretty well in the past two majors and we'll see if he can add to his total of 14 next year.

Matt Wilson: I know. He's being playing well. Yeah, it was kind of neat. The tournament was in St. Louis and my parents live just outside St. Louis and they're big into golf, so they volunteer at the event, which PGA they have this figured out. To volunteer at a golf tournament, you have to pay.

Steve Sanduski: Oh. Interesting.

Matt Wilson: They do tickets to the event. There's a shirt and there's all kinds of other amenities that are involved with paying, but it's kind of interesting that you have to pay to volunteer, but they paid. Of course, they had tickets to the event, so they had a good time. They told me.

Steve Sanduski: Now, did they get to watch the event or are they working the whole time?

Matt Wilson: Well, they get a little bit of both.

Steve Sanduski: Okay.

Matt Wilson: Because you don't work the entire time.

Bill Keen: Yeah. Matt, I always say Matt's from St. Louis, Steve and he corrects me because it's not quite St. Louis, right Matt? Your hometown was-

Matt Wilson: St. Charles.

Bill Keen: A little bit west of St. Louis, but I think you played that course in that day, didn't ya? The same course they played yesterday.

Matt Wilson: I did. When I was in high school, a friend of mine and his uncle was the head pro there. We played nine holes and then he said his back hurt, and we had to stop playing, which I think was an excuse that he was tired of playing with us.

Steve Sanduski: Or was that because you were beating him?

Matt Wilson: I don't think it was that.

Bill Keen: I don't know. Matt's a pretty good golfer. He's kind of a ringer. Any time we do our charity golf tournaments around the firm all our guests want Matt on their team, Steve. So don't let him fool you here.

Steve Sanduski: I think Matt is pretty good at just about everything he does.

Matt Wilson: Yeah. I don't know. I don't have an official handicap. You can tell how much golf I play.

Bill Keen: He's too busy working here helping us manage the firm at the essence.

Steve Sanduski: Helping clients live their retirement dreams.

Matt Wilson: That's right. One interesting fact from the golf tournament. There was a local from Kansas City. He actually lives in Shawnee, went to KU tied for sixth. He would tee off and because it was in St. Louis, there's not a lot of KU fans there. I actually heard this on TV. They would yell "M-I-Z" after the guy teed off, which is a common for Mizzou, University of Missouri to say M-I-Z then Z-O-U for Mizzou.

Steve Sanduski: So who's the other famous golfer from Kansas?

Matt Wilson: Tom Watson.

Steve Sanduski: Tom Watson. Yeah. Does he still live there?

Matt Wilson: Yeah. Hometown hero. Yeah.

Steve Sanduski: There you go. All right. Well, hey guys, another good show we got lined up here. We've got some questions that we're going to be through and the first one, this is one that we get fairly often, and it has to do with spending in retirement and maybe in particular we could talk about this idea of replacement rates. So sometimes you may read somewhere that someone says that in retirement, you might need 80% of your pre-retirement income, or maybe 70& of your pre-retirement income as a benchmark that you should be thinking about. That's that what your income in retirement should be in order to maintain the lifestyle that you had prior to retirement.

So I think there's a lot of good things we can talk about there and then there are a few questions that we can go through some other frequent things that we're getting. So why don't we start there, guys?

Bill Keen: On this spending question, when someone asks, "Am I on track to be able to retire" or "Will I be okay?" The first thing that we need to start thinking about or need to advise the folks to thinking about is just exactly that. You've asked me in the past, "What are the levers that people can pull?" When you speak of levers like what are the inputs to a plan in real life here that people can make to help their plan work or to get on track. It all comes down to how much do you need to live on when you're retired.

You see these things on commercials where it talks about a certain number. Do you X number. A million dollars. Two million dollars. Whatever the number is to retire. The question needs to be asked is, what do you need to live on? I think that's why these questions continue to come up because it's such an interval part of the planning process.

Matt Wilson: Yeah. These replacement rates, to Steve's question here on how much do you need based on your pre-retirement spending, and that's confusing. That's why we get a lot of questions about because there's generic answers that are out there on the Internet and yeah, it's common to see, "Well, you only need 75% of your pre-retirement income in retirement." Well, first question, okay, well is that pre-tax or after tax?

Bill Keen: Right.

Matt Wilson: What number is that? And why only 75%. I need all of it in retirement. Here's a little bit of background of where that comes from. Part of the reason pre-retirement income doesn't need to be as much in retirement is because some expenses go away or some components of income that was in pre-retirement, you're not going to need to replace post-retirement. For example, when you retire, well the first thing you do is you stop saving for retirement.

Steve Sanduski: Right.

Matt Wilson: So you don't need to replace that income on a post-retirement basis and on average in the firm, that's anyone from 5 to 10%.

Bill Keen: We have a lot of people that have a hard time getting their mind around that, don't we?

Matt Wilson: Yeah.

Bill Keen: They've saved their whole entire life and now they're retiring, Steve and they're starting to spend money, but they've been so ingrained to their credit, up saving money that they feel like they should have a line item in their budget for savings, but if you think about it, savings at that point would just be spending less or you're just moving money from one pocket to the other.

Steve Sanduski: Right.

Bill Keen: And if you're doing that and you're triggering a tax to do that, now it doesn't make sense, but these are things that we see that are very real that come up with people's thinking in retirement. Truthfully, if you're at the point of retirement, to Matt's point, you don't need to save anymore. You got that behind ya and again, hard for lot of folks that we work with to comprehend that because most folks we work have started with nothing and they've worked a long career, lived within their means, and saved money their whole life and that's just who and what they are.

Matt Wilson: Mm-hmm (affirmative).

Bill Keen: What are a couple other things that go away, Matt?

Matt Wilson: Well. There's generally a change in expenses and they're going to be different for everybody, but here in the Midwest most people commute by vehicle; by car to their work. They might have a longer commute than what they would normally have post-retirement. We might see some commuting costs go down in retirement. Also, clothing, not to say that no one's replacing their clothing in retirement, but don't need any professional clothing replaced. It's common to ... People kind of joke with us that once they retire, they've got rid of all of their suits except for one, and that's the one they're going to get buried in.

Bill Keen: They are thinking ahead again, you know?

Matt Wilson: Oh yeah.

Bill Keen: Planners by nature. What about FICA tax? We've talked about that in the past. Maybe I'm jumping ahead to the tax part of it, but FICA tax certainly something that you're not paying anymore.

Matt Wilson: Yes. There's two components to your taxes that is reduced. Your FICA tax, so that's the payroll tax. Well, you're not on a payroll anymore and when you take distributions from many retirement accounts you don't have to pay FICA tax on those distributions. You actually had to pay FICA tax on the money going into it, so that's why they don't trigger it on the way out. So FICA tax is seven and a half percent for a W2 employee. So right off the top, too so there's seven percent savings right there, and then if you're spending less because one, you're not saving for retirement, and two some of your expenses went down. Your total taxes will be a little bit less.

Bill Keen: For sure.

Matt Wilson: So tax bill in general is less than what it was in retirement than what it is pre-retirement. You look at some of these different categories. You can add 'em all up and it's anywhere from 20 to 25% right off the top that you don't need to replace in retirement. So that is why 75% of pre-retirement income is what you need post-retirement. So that's where that general rule of thumb comes from.

Bill Keen: And to make the point clear. Sorry Steve, but to make the point clear. Maybe you were going to just do this. We're not talking about people having necessarily having less money to spend because some of these other expenses have naturally dropped off like taxes are lowered. Right?

Matt Wilson: Mm-hmm (affirmative). That's right.

Bill Keen: It's not like we're asking people to ... We're not telling folks when they come to us with their budgets and we let them know if that would work or not, but it's not that we're asking people to take some big cut in standard of living to be able to retire, and I don't know if that's where you were going with it, Steve or not.

Steve Sanduski: That's exactly where I was going. Yeah. I was going to say what a good deal that you can retire and if you planned appropriately, you can have the same standard of living. The same lifestyle post-retirement as you had pre-retirement and you're in good shape. Like you say, you don't have to reduce your standard of living if things just fall off naturally that don't affect your standard of living. So yeah. I'm not sure that everybody really thinks about it that way, though.

Matt Wilson: Yeah. I think that's why we get a lot of questions about it, too. One, most people aren't used to living on a budget. So it's okay, well, how much do I need? How much do I really spend and that's hard to come up with. It's not always a lot of fun, either to sit down and say, "Okay, well what's my budget?"

Bill Keen: We call it a spending plan, too just to make it softened a little bit.

Matt Wilson: Yeah.

Steve Sanduski: Mm-hmm (affirmative).

Matt Wilson: Yeah.

Bill Keen: But one thing ... Yeah, go ahead.

Steve Sanduski: I was just gonna say, Bill maybe you touched on this a little bit earlier, but this psychological shift that has to take place when you retire. Prior to retirement, you're working, you're saving. You see that your nest egg is increasing in value, but now that you retirement, you don't have necessarily that working income. You might have other sources of income and so there's a little bit of that psychological shift that I think has to take place where now possibly drawing down our savings a little bit overtime. Do you see some of that from a psychology standpoint? People have to make that mental shift. Is there any difficulty in doing that?

Bill Keen: We see it a lot. That's exactly why the planning process is so important and you know we've talked many times about the checklist driven process for going through all the issues with related to getting yourself to be able to retire and that can be looking at what taxes will look like. Social security, of course. Healthcare costs in retirement. Inflation. Spending like we're talking about today.

All those things need to be looked at and accounted for, but when somebody has a plan in place, and they've looked through it, and thought about it, and pre-committed. Now what's happening is, yes technically, the plan is correct, but what we've also done is we've given people that permission; self-permission to spend the money they've allotted. There's a lot of people, a lot of people that we worked with over the years that end up having more money at the end of their life than they've ever had in their life, and that's okay. That's okay. If that was their plan and their intention, but one thing we like to say to folks is within reason now is enjoy this.

You worked so hard in your life to build these assets. Please don't feel guilty about enjoying these resources within the confines of the plan that we've all set down and put together. That's why it's so important to have a plan. Yes, the technical aspect needs to be correct, but also giving people permission to go ahead and live life, and not be under anxiety and stress all the time thinking that they're compromising themselves is every bit as powerful as having a technically accurate plan in place.

Steve Sanduski: You just went through and identified some of these expenses that naturally decline in retirement. Are there any expenses that actually typically increase in retirement and is there maybe a sequence in spending in retirement where for example maybe the first few years of retirement. Maybe spending goes up and then maybe it levels off, and then maybe it drops after 10 or 15 years. Is there any type of sequencing like that?

Matt Wilson: Yeah, there is. Some of the expenses that go up, the most common is travel. We see the travel budget increase 'cause that's safe. We're retired now. We wanna spend more time traveling, seeing the world. Visiting family, kids, grandkids if they're out of the state. And we like to earmark for that, as Bill mentioned. Have a specific line item saying, "Hey, this is what we allocated for. Let's make sure we enjoy that on the travel side," but another thing, too and this is common especially when we're working with people and they're thinking about their budget and their spending is the healthcare costs.

Forgetting to account for that as it's gonna be a cost in retirement. It may not be more than what you're paying now. It's just going to be different. It can be structured different and-

Bill Keen: That's right.

Matt Wilson: Yeah. I mean, you've got pre-Medicare, so pre-65 healthcare, and you have on Medicare healthcare costs. Those are gonna be different for everybody and we break those out in terms of how they look, and what the costs are gonna be 'cause pre-Medicare healthcare is a lot more expensive than post-Medicare healthcare.

Bill Keen: Yes. It sure is. I think it's important, again anchor back to that checklist driven process, and you're laugh at this, Steve. Maybe you won't, but when we're sitting down getting to know a family right from the beginning. One of the first things that we're doing in that meeting is we're really trying to understand how someone got to where they are in their life. Not just financially, but also what their family dynamic is currently like. What it was like growing up. Everything that they've experienced that has gotten them to the point they are at that point and one of the really easy shortcuts for us to even to see is what someone is living on is working for them is we say, "What are you clearing today?"

Let's get an idea of what you're clearing and you can do that relatively easy by looking at a paycheck stub, and we then we look over at their debt line, and we say, "All right. Are these folks going backwards in consumer debt or otherwise" or "Are they doing well? Are they saving money?" Now you might, again you might think, "Well, that's over simplistic." Well, actually it's reality. If we see that they're clearing $8000 a month now on their paychecks and they're building savings at that level and they have no debt, let's say. Then we know as their planners in pretty short order, hey, it looks like $8000 a month would be a reasonable starting point, at least for the planning process.

Steve Sanduski: Right. Yeah. No and that's exactly why you guys are pros at what you do 'cause you spend a lot of time working with people on these things, and you can very quickly diagnose the situation, and figure out what's gonna make sense, or what's not gonna make sense for 'em.

Bill Keen: Well, the last thing that we want to happen is someone to come in and make a decision to retire. If we could spot that they were missing some things, it's so important to get this right before someone retires. Really what's it going to take to live in retirement because the last thing, like I said, we want someone to do is retire, and then realize that they had it off by two or three thousand dollars a month, and that can compromise someone. These are important things to continue to discuss as folks are making their plans for retirement.

Matt Wilson: Mm-hmm (affirmative). Yeah and you mentioned, Steve too how that changes. Well, we've talked about what we call the phases of retirement, which is the go-go years, the slow-go years, and the no-go years, and essentially that's broken up into a decade each. Three decades of retirement. You've got the go-go years upfront, so you're spending more upfront in the first decade. Less spending in the second decade. Then, even potentially less spending in the third decade depending on healthcare at that point. It is very common for us to see spending go down.

Bill Keen: It is.

Matt Wilson: Yeah.

Bill Keen: It is and all these financial planning tools and models that folks use, typically just assume that you're going to spend a certain amount day one of retirement, and that's going to increase in a straight line if you will for inflation all the way until the end of life, and to Matt's point. We've seen those things plateau, come down, and then move all around, actually based on each person's lifestyle and what they're doing, and who they're supporting. Supporting kids, grandkids, other things like that.

I like to link back to an episode that we did. I think it was last year from a listener question, as well who made some commentary on he actually tracked his parents' spending in pretty good detail, Steve. Do you remember that episode we did? Where we talked about his specific situation. I think that would be helpful to link back to.

Steve Sanduski: Yeah. Yep. We will. Great. Well, speaking of a person's situation. We do have a question here. Actually, not so much a question, it's just more describing their situation. So we're gonna go through a little bit about their situation and then I think you guys wanna make some comments here about it.

They talk about how they have current savings of 1.8 million, which includes their retirement plans. They're all fully funded for the maximum allowance. They also mentioned that they're paying their medical bills out of pocket and they're maxing out their health savings account that they plan to use for future retirement use, as well. Just looking at those numbers, I'll say, "Wow. 1.8 million." They're doing pretty well.

Bill Keen: Well, my first question. First question is going to be how old are they? Right?

Matt Wilson: Mm-hmm (affirmative). Mm-hmm (affirmative).

Bill Keen: And do you have that date of theirs, Steve? Somewhere close by.

Steve Sanduski: Early 50s, late 40s, I think. Maybe the husband was 52 and the wife was 49.

Matt Wilson: Okay. Yeah. So considering their age that is a great place to be heading into retirement. Now we're get a little bit farther into this, too. Just from an assets and savings level, and maxing it out on an annual basis, which is great. A few comments that I've got is, well let's make sure that we're making the catchup contribution. This is something that we find that slips through the cracks with most individuals. On your 401K, on your retirement plan with your employer, the maximum amount you can contribute is $18500 in 2018. Well, when you turn age 50, the IRS allows you to contribute another$6000 to that.

It's $24500-

Bill Keen: To your work plan. That's right.

Matt Wilson: To your work plan. That additional $6000 is called a "catchup contribution" and in most plans, you have to elect that. Let's just say you've been maxing out your plan and you thought, "Well, if I just increase the percentage, it'll just max up to the 24-5," and that's not the case. You actually have to go into your benefits system and actually elect I want to make the catchup contribution, which is a separate election.

Bill Keen: Can I let you know that I have done that this year, gentlemen. I now qualify for the catchup provision.

Steve Sanduski: Oh, very nice.

Bill Keen: I turn 50 in December, Steve or I will be turning 50 in December.

Steve Sanduski: All right. Well, I'm still ahead of ya.

Bill Keen: I'm not catching up, yet.

Matt Wilson: Oh, I don't know. He's getting closer.

Steve Sanduski: Hey guys, I got a serious question here about what you were just talking about. So you talk about the catchup contribution. How does that differ from the mustard contribution?

Matt Wilson: I don't know. Are you a ketchup or mustard guy, Steve?

Steve Sanduski: You know, I like 'em both.

Matt Wilson: Ooh.

Steve Sanduski: I do. Yeah.

Bill Keen: I just had a brat for lunch here with some mustard on it.

Matt Wilson: No ketchup?

Bill Keen: Thanks for your serious question, Steve. I was getting my pen out and I was ready to write.

Steve Sanduski: I tried to catch you guys off guard.

Matt Wilson: Yeah.

Bill Keen: Speaking of age 50. I got a couple cards in the mail recently and I thought, "Well, this is interesting." Nice package and some like hard cards inside. I thought maybe a credit offering or something, and I look down and I see "Bill Keen AARP." Real possibilities it says, Steve.

Steve Sanduski: Do you know that AARP, that used to stand for something. Association of Retired Persons or People.

Bill Keen: Yes.

Steve Sanduski: They don't say that anymore. They don't reference it as retired people in their name. What was the tagline you said there?

Bill Keen: It was AA Real Possibilities.

Steve Sanduski: Yes. So they don't talk about retirement anymore, which is a perfect example of how the whole nature retirement is changing for a lot of people even AARP is taking retirement out of their name.

Matt Wilson: Wow.

Bill Keen: Yes.

Steve Sanduski: Interesting. Yeah.

Matt Wilson: I signed Bill up for AARP, by the way.

Bill Keen: Yeah. I found that out later, Steve. Matt signed me up for my card, so I don't know what his indication is over here, but I put the cards here on my desk, and it just reminds me to, "Hey, you know? Time?" We talked about this, too. Prior episodes. So it's time is the priceless commodity. So turning 50 looking at my AARP card, it's telling me, "Bill, enjoy the moment. Enjoy the days. Make the most of 'em. Live life to the fullest." That's my message.

Steve Sanduski: So recently we were out at a restaurant and it said, "Senior discount. Age 55 or older," and I looked at Linda and I said, "Oh my gosh. I can get 10% off for the senior discount." That was the first time I ever used the senior discount.

Matt Wilson: Did they card you?

Steve Sanduski: They did not.

Bill Keen: Steve looks pretty young, you know. He's Irish.

Steve Sanduski: Either that or well. I'm trustworthy. I look trustworthy.

Matt Wilson: I guess so.

Bill Keen: Yes you do. We have some clients recently go on a nice tour of Canada and they had a lot of the national parks up there, and they were looking for their senior discount, and in Canada, Steve it's 65.

Steve Sanduski: Okay. Yeah.

Bill Keen: Yeah.

Steve Sanduski: I didn't think 55 was the normal age. I thought it typically was higher, but at this particular place it was 55. Saved a few bucks. I guess that's one benefit of getting old.

Bill Keen: Yes it is.

Matt Wilson: One more comment on what this person said, too. The 401K, the catchup contribution, that's great. Another thing that was mentioned was the HSA account, which stands for the Health Savings Account. That's not available to everyone. You have to have a certain qualifying medical plan that you elect through your employer to be able to contribute to an HSA account. Typically, it's considered a high deductible plan, and saving in an HSA what that does is you're able to put money in on a pre-tax basis, and it avoids FICA tax. It's actually one of the only places to save money from all taxes.

And then for qualified medical expenses, you can withdraw the money with no tax bill associated with it. Now the limits aren't very high. The maximum amount for a married couple this year I believe is $6750 for a married couple. It's a limited amount, but this person mentioned they're paying their medical bills out of pocket. That's interesting. So they're saving in the HSA, but any medical expenses they're not using the HSA to pay for them. Paying for them out of pocket.

Bill Keen: So, so far, these folks are looking pretty good. So far.

Matt Wilson: Yeah. What that does is it builds up that HSA balance because it never expires. So now they're basically pre-funding or pre-saving for their healthcare expenses for when they do retire, which is a great tool.

Steve Sanduski: Right and then it's also growing tax like triple tax free, right?

Matt Wilson: Yeah. Yeah.

Steve Sanduski: If they are investing aggressively in that HSA, there might be some potential to get growth that would be much higher than maybe putting it in a savings account.

Matt Wilson: That's right and each HSA is a little different on whether you can invest the money, or it's kind of in a fixed account. They all have a little different nuances associated with how they allow you to kind of save and invest with that money.

Steve Sanduski: Okay. Some other particulars with this person's situation is they are saving $9850 a month. They have bonuses that range from $50000 to $125000 annually and they say that those typically end up in retirement accounts, but also fund IRA annual contribution maxes for each of them. So again, gosh, looking pretty good there.

Matt Wilson: Yeah, that's interesting. It's a good, great, great amount of savings. Now one question that I'd ask is okay, they mentioned they had a million eight in 401Ks, IRAs, HSA, Roths. Well, if they're saving almost $10000 a month, that's 120 grand a year. There should be some after tax savings somewhere.

Bill Keen: I was gonna say typically end up in retirement accounts, that would over any maximum contribution allowances. If they were on the show here today, we could ask them specifically about it, but a lot of people will tag after tax money in their minds even as retirement money, but it's not technically retirement like we were talking about here.

Matt Wilson: That's right. How it's structured. Yeah and if they didn't have any after tax money, and/or was tagged as retirement money, I'll say, "Okay, maybe you're not saving as much as you think."

Bill Keen: Mm-hmm (affirmative). Right. That's right, but saving $10000 a month. My goodness. We don't see that too often. That's pretty solid.

Matt Wilson: A hefty sum.

Steve Sanduski: Yeah. For sure.

Bill Keen: Are you sure you didn't make this question up, Steve? This couple seems in pretty strong position here already. Well, I'll let you keep going and we still haven't gotten to what they need to live on in retirement. So while we're commenting here about how solid it sounds, we haven't got to the real question about it. What do they need to live on? Which we open the show with talking about, but I'll let you proceed through the rest of the stats here.

Steve Sanduski: Well, they indicated that they have monthly expenses of $9500, but that and that actually, that does include vacations, luxuries, 529 annual contributions. Yeah. They're definitely living below their means here.

Bill Keen: Okay so that's now. We're still haven't seen what they need to live on in retirement, but we'll get to that.

Steve Sanduski: All right. Zero debt.

Bill Keen: What about debt? Okay.

Steve Sanduski: Well, it's saying zero debt except for a $250000 mortgage on a house that's currently valued at $650000. They plan to retire at age 60. Pension kicks in at age 65, which is $3100 upon the gross. They plan to take social security at age 62 and they're estimating social security to be about $2100 per month.

Bill Keen: Okay.

Matt Wilson: Mm-hmm (affirmative).

Yeah, that's interesting there, too. I mean, they asked us advice on social security, but yeah we would definitely wanna run through the numbers before they would make a decision on whether they take it 62 or not.

Steve Sanduski: They did say they spend approximately a $114000 net annually.

Matt Wilson: Yeah. They're trying to figure out do they have enough savings and are they contributing enough between now and retirement to be able to generate a $114000 net. And based on some of the factors that we look at and just some simple estimates on what they're account balances could be, and factoring in inflation, of course. I would say that they're gonna be in a pretty good shape without sitting and going through the plan, and getting more clarity on some of these expenses. Just looking at that from a high level. I say you're in pretty good shape.

Steve Sanduski: Now Matt, you can do that calculation in your head, right?

Matt Wilson: Oh, of course.

Bill Keen: But we have the technology that he checks things with.

Steve Sanduski: Yeah. He does the calculation first and then he uses the technology to check the math, right?

Matt Wilson: Mm-hmm (affirmative). That is right.

Steve Sanduski: So this person I would say is in pretty decent shape. Any other things that maybe they haven't thought about or that they did not address in the comments I just made from their email that they should be thinking about?

Matt Wilson: What we would ask normally is just life expectancy factors. I mean, they mentioned wanting the money to last 25+ years. That's a great number to start with. We wanna know a little bit more bout family history just to know. Hey, is there longevity? Because maybe as a "what if" type scenario. What if you live to 100, and you're gonna retire at 60, that's 40 years that we gotta make this money last. So let's just account for that. Let's just look at that as a potential scenario and then the other factor they mentioned social security at age 62.

Of course, we would run through the numbers, and go through. Delaying it to 67, to 70, and just see what impact that has on the plan. I see a pension there, 3100. My first thought on the pension is depending on the type of it. Is it subject to the offset provision? There are certain pensions that if you receive, you're not eligible for social security, or it offsets some of your social security. So that's a question I definitely wanna get some more clarity on.

Now most pensions don't have that. Most common are older government pensions, railroad pensions, and some teachers' retirement pensions have those offset provisions. And that plays into two ways while you're living, the spouse receiving the pension, no social security, but let's say their spouse passes away and that spouse is receiving social security while if you've got this pension, your survivor benefits is gonna be offset by it, as well.

Bill Keen: That's right and as you were reading that data to us, Steve. I did notice that the gentleman said that he plans to take his social security at 62. Never mentioned his wife's social security in this writeup. So I'm wondering if that pension that's mentioned is the wife's and she probably doesn't qualify for social security or he would have listed it here. So to your point exactly, Matt.

The other thing that was mentioned, too is the funding 529s. If we were sitting down with this couple, we would be asking a lot of questions about how many kids, what type of support. Sounds like maybe they have the 529s fully funded, but as we talked about many times before, that sometimes the supporting kids post-college is something that's on the docket for a lot of families today. In addition, are their parents still living because at the ages of 49 and 52 here, I would assume probably their parents are living.

So those are some things that can come up that you gotta dig a little bit deeper sometimes when you're chatting with folks about things that can come up that might throw a plan off. I have some pretty personal experience with this in helping parents and some of these assisted living facilities if you're not, well, of course the skill nursing facilities can be 7, 8, 9, 10 thousand a month and even a good quality assisted living facility can be upwards of 5000 a month. Those are some real expenses that I would suggest most people that we work with even including ourselves would step up and help a parent maintain dignity at the end of life or towards the end of life, and those are expenses that just aren't necessarily, if ever, calculated into some of these plans like we mentioned today.

Steve Sanduski: Yep. Well great, gentlemen. Thank you. Let me just quickly summarize what we talked about here. At the beginning, we talked about this idea of the replacement rates. When someone retires, what is the percentage of their income that you might typically need, and while we tend to use rule of thumbs or the industry often times we use rule of thumb. What was really eye-opening for me as you walk through the expenses that just naturally decline when you retire and that alone is gonna save 20 to 25%, and there might be some spending that increases in retirement like travel, for example. So maybe that takes it back up another 5 or 10%.

But essentially if you do it right and you plan far enough in advance when you retire, you might be able to maintain the same standard of living as you did before you quit working. What a good deal. So the power of professional planning right there.

Bill Keen: We always talk about being intentional and not ahead of these issues. That's why, again we always go back to having that plan in place. Sitting down and yes it's a little bit of work to Matt's point. A lot of folks don't have to budget as they work. They spend what hits their checking account and they're not out of control spending, but they haven't had to budget. So we always say, "Go back a year or two, and look at what you spent money on, and that will give you a sense of security, too." That you're guessing about what things might cost going forward.

A lot of this has to do with just getting your emotional ducks in order, as well as your financial ducks before you make one of the biggest major life transitions that exist, and that's retirement. We're honored to be on that journey with quite a few folks and hopefully this podcast is bringing some insight to people that come across it or listen to it regularly.

Steve Sanduski: Excellent.

Matt Wilson: And I would just say this person, they should be proud of their situation. They've done a great job setting themselves up for retirement.

Bill Keen: Oh my goodness and the crowd roars, Steve.

Steve Sanduski: That's right. It sounded like Chariots of Fire right there.

Matt Wilson: Yeah. Just like the PGA we watched.

Steve Sanduski: All right. Excellent. Well, hey guys, thank you. For those of you listening, please feel free to visit us at keenonretirement.com. That's K-E-E-N onretirement.com. Check out all the episodes we have there. All the blogs that we have one these types of topics and hit us up if you got a question. There's a place for you to contact us on the website. We love to hear from you. So thank you for being a listener and we look forward to our next show.

Bill Keen: Thank you, Steve.