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MONEY & MORE

The retirement question

Determining how much money to save now is a tricky equation

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Stan Goldman, a 47-year-old massage therapist, raises a question we often hear from readers: How much do I need to put away if I want a long, comfortable retirement?

"I realize this will have to get me through the rest of my life," Goldman said. "There's no pension plan for me, and I'm not convinced Social Security is going to be there for me. I'm doing this all on my own."

Still, Goldman and his 42-year-old wife, Trish, are in better shape than most couples their ages. They are self-employed — hence, no retirement plans — but they have already put away a substantial amount in four individual retirement accounts.

His question is a complex one. You can find approximate, back-of-the-envelope answers. The worksheet on this page is one way to do that.

You can go to the Internet and find interactive calculators that go into considerably more detail. There's a good one, for example, at www.vanguard.com. Another potential resource is nearby financial institutions. Large banks, for example, sometimes offer financial planning services as a way of selling their own financial products.

Another option is to hire a financial planner to take you through the process.

"You're facing one of the most important financial decisions you can make," said William J. Kring, a certified financial planner with Financial Network Corp. "You want a pretty high level of comfort that the numbers you have used are accurate."

The steps to building a retirement plan are not hard to describe. You figure out the basics, including how much you have now, how much you want to spend each year after you retire, and how much income you expect from Social Security, pensions or other resources.

Then you figure out how much you'll need to take each year from your own investments. Finally, you can back into an estimate of how much you need to have put away if you want to draw out that amount from investments.

In practice, of course, it's not all that easy to figure out and correlate all those elements.

For one thing, you have to make a handful of assumptions — things like how much inflation will be in future years and the growth rate you can expect from your investments. And there's the big, unsettling assumption: how long you and your dependents will live after you retire.

There are some details within those assumptions that require more than a little thought. If you want a high return from your investments, for example, you'll have to decide whether you're willing to make riskier investments.

There are some things that software and worksheets just can't take into account. One is the phases of retirement — relatively expensive early years, followed by a less

active and less costly period. "As you age, you'll spend less on clothes, and you may replace your car every seven years instead of every four years," Kring pointed out.

Another not-so-obvious problem is getting an accurate estimate of retirement tax loads. "Worksheets may overestimate the impact of income taxes or not take into account the taxes on withdrawals from retirement accounts," Kring said.

So what's the best path? For some, the answer will depend on the usual balancing act performed by shoppers: how good a product I want vs. how much I'm willing or able to pay.

The horseback estimates are a good start. But if you want more meticulous estimates, you'll have to pay. Fee-only planners may charge from \$75 to \$250 an hour. A complete financial plan, including retirement needs, can cost from \$500 to \$5,000 and up.

The best way to choose a planner is word-of-mouth referral. Ask friends or co-workers whom they have used and can recommend. Lawyers or accountants may name some planners they trust.

Professional associations often run referral services. To contact the Georgia Society of the Institute of Certified Financial Planners, call 404-250-3588 or look on the Internet at www.ga-icfp.org.

For an excellent and free booklet on evaluating financial planners, contact the Certified Financial Planner Board of Standards and ask for "10 Questions to Ask When Choosing a Financial Planner." Call 1-888-237-6275 on Monday for a copy, or read it on the Internet at <http://www.cfp-board.org>.

