

Can You Afford to Retire?

How do you know if you can afford to retire? It's not an easy question to answer to be sure. Nor is it the sort of question that you can answer on the back of a napkin, or with rules of thumb, or even in a short blog post.

Rather, it's the sort of question that requires a thorough understanding of many financial and non-financial issues. At [ABC], we have the knowledge and experience to help you evaluate both the financial and non-financial issues and determine whether and when you can retire. We can also give you a sense of some of the questions you need to answer in order to determine whether you can retire.

For starters, you need to determine your current net worth – the difference between your assets and your liabilities -- and your net worth at your planned date of retirement.

Your current net worth is, of course, the difference between what you own such as the value of your IRAs and 401(k)s, the equity in your house, cash in the bank, and what you owe such as your mortgage or home equity line of credit, car loans, credit card debt. The easy part is, of course, determining your current net worth. The tricky part is trying to get a sense of what your net worth will be at your planned date of retirement, and whether you have enough money to fund your retirement over the course of your and, if you are married, your spouse's lifetimes.

You also need determine your current income and expenses, your sources of income in retirement, and your likely fixed and discretionary expenses in retirement. Getting a sense of your current income and expenses, as it was with calculating your current net worth, is the easy part. Getting a sense of your income and expenses in retirement is the hard part.

Consider, for instance, what it takes to estimate your expenses in retirement. You'll need to calculate what your typical expenses such as housing, transportation, healthcare, food, insurance, travel and the like will be in retirement. And, you'll need to get a sense of how many years you might need to fund those expenses. Will you have those expenses for 15, 20 or 30 years of retirement? And, how will those expenses change over time? Will your healthcare costs rise over the course of your retirement? Will your travel expenses fall over the course of your retirement?

Besides getting a handle on your expenses, you need to determine what your sources of income will be in retirement. Now, for many retirees, income typically comes from four places: Social Security, a traditional defined benefit pension such as that workers at AT&T/BellSouth receive, retirement accounts such as an IRA or 401(k), and work be it part time or full time. (We talk more about working in retirement in another blog. [Link to it](#)).

You also want to determine what percent of your income in retirement might be guaranteed for life. The more income that you have that is guaranteed for life the lower your odds of outliving your assets.

Social Security is, of course, inflation-adjusted guaranteed for life. Your pension, assuming that you didn't take a lump-sum distribution, is typically guaranteed either over your lifetime and in some cases your spouse's lifetime. The income that you generate from your retirement accounts may or not be guaranteed. (At [ABC], we can help you determine how best to draw down money from your retirement accounts.) And last, the income you earn from working while in retirement is unlikely to be guaranteed.

Put all this together and you'll get a sense of whether you can afford to retire, and whether your money will last a lifetime. Remember though, it's only a sense. Trying to figure out whether you can afford and whether your money will last a lifetime often requires the help of financial professionals such as those at [ABC]. So, if you are among the many workers at ATT/BellSouth, Vanderbilt, or Tractor Supply wondering whether you can afford to retire, consider contact us. For the record, [ABC] will be on the list of recommended advisors for employees at Vanderbilt who have TIIA-CREF retirement plans. We can help crunch the numbers and give you an honest answer – which just might be the one you want to hear.