

Planning for Retirement

Sponsored by The Department of Fire and Police Pensions
City of Los Angeles

Can I Afford to Retire?



Can I afford to retire?

- How long will your money last?
- A case study
 - Your nest egg
 - Your retirement income
 - Your replacement ratio
 - Your expenses in retirement
 - The effect of inflation

How long will your money last?

- Estimate your “fixed income”
 - Retirement Plan
 - Social Security
- Estimate your income from investments
 - Deferred Compensation Plan
 - Other savings
- Estimate your retirement living expenses
- Take inflation into account
- Estimate how long your savings will last

A case study

STEVE AND BETTY SMITH
Statement of Financial Position as of _____

ASSETS		LIABILITIES AND NET WORTH	
Cash and Cash Equivalents		Liabilities	
Cash and checking account	\$ 1,000	Credit card balances	\$ 20,000
CDs	<u>10,000</u>	Automobile note balance	15,000
		Mortgage note balance	<u>200,000</u>
Total Cash/Cash Equivalents	\$ 11,000	TOTAL LIABILITIES	<u>\$ 235,000</u>
 Invested Assets			
Deferred compensation plan	<u>\$200,000</u>		
Total Invested Assets	\$200,000		
 Use Assets			
Residence	\$500,000		
Automobiles	30,000		
Household furnishings	22,000	Total Assets:	\$780,000
Clothing, jewelry, etc.	<u>17,000</u>	Total Liabilities:	<u>- 235,000</u>
Total Use Assets	\$569,000		
 TOTAL ASSETS	 <u>\$780,000</u>	 NET WORTH	 <u>\$545,000</u>

A case study

Projected Retirement Income

	<u>Current Annual Income</u>	<u>Projected Annual Retirement Income</u>
Salary	<u>\$ 100,000.</u>	_____
City pension	_____	<u>\$81,000</u>
Deferred Compensation Plan	_____	<u>16,000</u>
Social Security	_____	_____
Other sources	_____	_____
TOTAL	<u>\$100,000</u>	<u>\$97,000</u>
Replacement Ratio Estimate	97%	

A case study

Replacement Ratio Calculation

Step 1.	Gross income in year before retirement	A.	<u>\$100,000</u>	
Step 2.	Subtract federal and state income taxes		<u>(15,000)</u>	
Step 3.	Subtract work-related expenses		<u>(3,000)</u>	
Step 4.	Subtract savings and investments		<u>(10,000)</u>	
	Subtotal: Net pre-retirement income		<u>72,000</u>	
Step 5.	Add estimated income taxes in retirement		<u>+11,000</u>	
Result:	Equivalent gross income needed in first year of retirement	B.	<u>\$83,000</u>	
YOUR REPLACEMENT RATIO		B.	<u>\$83,000</u>	B/A = 83%
		A.	<u>\$100,000</u>	
PROJECTED RETIREMENT INCOME			<u>\$97,000</u>	

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<u>EXPENSES</u>	<u>Current Amount</u>	<u>Percentage</u>	<u>Retirement Projection</u>
Food Money spent on food, including grocery bills, meals at restaurants and at work	\$ 18,000	18%	
Housing This includes furnishings, home operations, rent or mortgage payments, real estate taxes, utilities, repairs, maintenance and insurance	19,000	19	
Transportation Cost of buying, operating, and maintaining automobiles	6,000	6	
Clothing Clothing purchases, laundry, dry cleaning	4,000	6	
Personal Care Beauty parlor, haircuts, toiletries, cosmetics	4,000	4	
Medical Care Health insurance plan premiums, doctor, dental and eye care, medicine, other payments	3,000	3	
Leisure Activities Books, movies, vacations, etc.	11,000	11	
Personal Income Taxes Federal and state	16,000	16	
All Other Charitable, additional life insurance, investments, etc.	<u>17,000</u>	<u>17</u>	
TOTAL BUDGET	<u>\$100,000</u>	<u>100.0%</u>	

A case study

ASSUMPTIONS:

Initial size of nest egg:	\$ 200,000
Earnings rate of nest egg (after taxes)	5.00%
Initial expense amount subject to inflation	\$ 83,000
Rate of Inflation	4.00%
Initial amount of City pension	\$ 81,000
City pension COLA	3.00%
Retirement January 1. COLA effective July 1.	

Using a Nest Egg to Overcome the Effect of Inflation

End of Year	Expenses Subject to Inflation	Adjusted City Pension	Need from Nest Egg	Size of Nest Egg (1/1)	Earnings of Nest Egg	Balance of Nest Egg (12/31)
1	\$84,660	\$82,215	\$2,445	\$200,000	\$10,000	\$207,555
2	88,046	84,681	3,365	207,555	10,378	214,568
3	91,568	87,222	4,346	214,568	10,728	220,950
4	95,231	89,839	5,392	220,950	11,048	226,606
5	99,040	92,534	6,506	226,606	11,330	231,430
6	103,002	95,310	7,692	231,430	11,572	235,310
7	107,122	98,169	8,953	235,310	11,765	238,122
8	111,407	101,114	10,293	238,122	11,906	239,735
9	115,863	104,147	11,716	239,735	11,987	240,006
10	120,498	107,272	13,226	240,006	12,000	238,780
11	125,318	110,490	14,828	238,780	11,937	235,891
12	130,330	113,805	16,525	235,891	11,795	231,161
13	135,544	117,219	18,325	231,161	11,558	224,394
14	140,965	120,735	20,230	224,394	11,220	215,383
15	146,604	124,357	22,247	215,383	10,769	203,905
16	152,468	128,088	24,380	203,905	10,195	189,720
17	158,566	131,930	26,636	189,720	9,486	172,570
18	164,909	135,888	29,021	172,570	8,629	152,178
19	171,505	139,965	31,540	152,178	7,609	128,247
20	178,365	144,164	34,201	128,247	6,412	100,458
21	185,500	148,489	37,011	100,458	5,023	68,470
22	192,920	152,944	39,976	68,470	3,424	31,918
23	200,637	157,532	43,105	31,918	1,596	--