



# Investment Insights

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## How Much Is Enough?

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Ah, the million-dollar question: how much money will I need to retire? The finish line is out there somewhere, is it closer or farther away than you think? Despite this being summertime, when thoughts turn to barbecues and parades, and typically not weighty financial questions, here are some strategies/rules of thumb/experiences we can all learn from in answering this universal question. This is a two-part column—part two will run two weeks from now.

To start this exercise, first consider the lifestyle you have to support in retirement. This is one of the major variables in determining how much money you'll need. Too often numbers are proffered by financial calculators, journalists, or other sources as the "magic number" we should amass to support our retirement without consideration of how much the needs we'll have in retirement will cost. As the late actor Errol Flynn so eloquently stated, "My problem lies in reconciling my gross habits with my net income." One of the best financial exercises you can spend a few hours on is to quantify your "gross habits" and get a true read on what your living expenses are today. Using a program such as Quicken to track your expenses can simplify this greatly, and it also safeguards against the problem many people make of underestimating, often significantly, monthly expenses. You may also want to break these expenses into two categories: discretionary and non-discretionary. Non-discretionary expenses would be any bills you must pay: mortgage, debt service, taxes, food, and insurance, for example. Everything else is discretionary—you could live without it. The percentage of your spending that is discretionary is the part you can change, while changing your non-discretionary spending requires a significant lifestyle change. Be careful if your non-discretionary spending is more than 75% of your income: it means you've taken on some serious obligations and have little margin for error, now or in retirement.

Once you've gotten an honest read on how much you currently spend, consider what expenses will go away once you retire. One example might be commuting expenses (at \$3+ per gallon, driving to work gets expensive!). You can then add in the cost of the activities and lifestyle you want to pursue in retirement: will you stay home and garden, or take six-month vacations every year? This is where every person's scenario differs, and the rule of thumb calculations become useless. The cost of retirement can vary as widely as the cost of pre-retirement, and how you live and choose to spend your money is a personal decision. Thus, when your neighbor says he needs \$2 million to retire, you shouldn't assume that the same number applies to you.

A word of caution on this part of the process: for the first time since the Great Depression, the savings rate in the US was negative in 2005, meaning the average American spent more money than they earned. As the famous poet E.E. Cummings said, "I'm living so far beyond my income that we may almost be said to be living apart." Building a lifestyle larger than you can financially handle is easy in the Bay Area, and if you think your current lifestyle is stretching the limits of your finances, wait until you try to support that beast for 30 years of retirement! Remember that the commitments you create today may stay with you for many decades to come, and it's never fun to involuntarily have to give up things you once enjoyed for lack of money.

Next time, we'll build on the results from this exercise to come up with your personal answer to the significant question, "How much is enough?"

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