

Eads & Heald Investment Counsel

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Professional Portfolio Management With Experience And Integrity
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Equity Investing

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Chapter 15: Retirement Spending Model

Different people save to varying degrees for their retirement. Saving money is very difficult for most people simply because of the lack of enough money to do the things they need and/or want to do. A person finishes their education, gets a job, gets married, has children and so on. Between buying a house, furnishings, cars, food, utilities, vacations, schooling for the children, medical/dental and myriad other ongoing expenses there always seems to be something more important than saving. By the time the kids are all educated and one might start to seriously ponder retirement down the road the person might be in their mid-40's to mid-50's. Time is then limited to adequately save for retirement. These days, since the defined benefit pension plan is rare, many people are saving some money by way of a 401K-type plan at work. IRA's are also used to save. Even then, will the funds prove to be adequate at retirement?

We do not currently have a program to help people actually save money for retirement. Nor do we have a program to help them stop smoking or lose weight. All are very difficult endeavors. What we do is to provide a computer-based model for a person retiring, or just about to retire, to assist in gauging how much money can be spent in each year and still have adequate funds for the next 30 years. Our Retirement Spending Model can be found at this same Eads & Heald web site on the home page. It is free to use and we do not track any data entered or attempt to link it back to the user. Your privacy is protected.

See the model in Chart 1 below. We believe that the model is powerful for most users. However, for someone with extensive and/or exotic financial assets and income sources the model could well appear inadequate. When you first go to the model we suggest that you read our introductory briefing before actually jumping in to fill out the model inputs. After the introduction the model is designed to start inserting inputs without first having to complete a multi-page questionnaire which would be tedious and boring. Any inputs you make can be altered with a couple of keystrokes.

A vital input, which proves difficult for most people, is simply, "On retiring, how much money after federal and state income taxes will you need to spend in the first year to live your lifestyle?" Sounds simple...however, most people stumble coming up with an answer. After the first year the model will grow that number at the assumed rate of inflation for each following year. We recommend using 3.5% inflation. Again, the beauty of the model is that different scenarios can be tried instantly.

The model separates taxable funds from tax-sheltered funds for each of you and a spouse. Rate of return is broken up into two 15 year periods simply because the market does have a history of 30 year complete cycles which contain a good period and a not so good period.

You should hope that the good returns come as soon as possible in the 30 year period. This is because your money will last longer than if the same good returns come later. You can assume your combined federal and state income tax rate....this is the overall rate and not just the highest marginal rate. There are provisions for entering Social Security benefits as well as defined benefit pension payments. If you are selling a business, you can enter the key factors of the sale. Also, if you have something like income from rental properties (or, whatever), enter that.

A computer-based model is only a guide. It is not a definitive answer to how your money will withstand the ravages of an unknown future. It will sort out the extreme possible outcomes of having more than adequate funds versus having totally inadequate funds. It is useful to be conservative in the inputs you use. For example, overstate inflation and the tax rate somewhat while you understate rates of return. Still, again, you can try myriad combinations of inputs. You will get a good feel for how sensitive the final outcome is to slight changes in a given input variable. The completed model on our web site is out of money in the 24th year. The couple would need to go back and review the model inputs along with their desired spending level. Even as an imperfect model it does give a means to consider alternatives and review spending in retirement.

Click here to visit and use our Retirement Spending Model.

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This model is designed to be used by someone retired or within 3 years of retirement. The intent: gauge what realistic spending is possible given your resources. Delete the example entries in the boxes below, enter your data and click the "Update" button to view your results.

	SPOUSE	"YOU"		SOCIAL SECURITY	SPOUSE	"YOU"
Tax-Sheltered Funds When Model Begins (for Each):	75,000	175,000		Current Age:	61	63
Joint Taxable Funds When Model Begins:		600,000		Age to Start Social Security (62-70):	62	65
Total Funds When Model Begins:		850,000		Social Security in Start Year (Current \$'s Now):	7,000	10,000
Funds Needed in Year 1 After Income Taxes (Current \$'s Now):		75,000				
Inflation Rate - Percent:		3.0				
Return First 15 Years:		7.0				
Return Second 15 Years:		5.0				
Overall Income Tax Rate (Combined Federal & State) - Percent:		34.0				
Letter of Retirement Age or Current Age for "YOU" (MODEL BEGINS):		65				
Current Age for "YOU":		63				

Year	Tax Sheltered Funds	Taxable Funds	Total Funds	P/T Funds Needed + w/d Taxable After Tax	Social Security P/T	Pension & Buyout Income P/T	Mandatory w/d Tax Sheltered Funds P/T	Elective w/d Tax Sheltered Funds P/T	Total w/d Tax Sheltered Funds P/T	w/d(d/p) Taxable Funds	Total Funds Adj. for Inflation
0	250,000	600,000	850,000								850,000
1	267,500	583,255	850,755	79,568	97,651	18,035	35,150	0	0	44,465	825,976
2	286,225	563,938	850,163	81,955	100,341	18,576	35,502	0	0	46,263	801,360
3	306,261	541,872	848,133	84,413	103,110	19,134	35,857	0	0	48,120	776,162
4	327,699	523,470	851,169	86,946	109,359	19,708	46,215	0	0	43,437	756,253
5	350,638	502,371	853,009	89,554	112,360	20,299	46,777	0	0	45,284	736,813
6	366,225	489,580	855,805	92,241	121,213	20,908	55,347	8,958	0	36,000	716,723
7	382,288	474,632	856,920	95,008	124,599	21,535	55,925	9,572	0	37,567	696,755
8	394,424	460,290	854,714	97,858	129,585	22,181	56,510	14,624	0	36,270	674,719
9	406,407	443,842	850,250	100,794	133,290	22,847	57,103	15,626	0	37,714	651,646
10	418,160	425,166	843,326	103,818	137,115	23,532	57,705	16,696	0	39,182	627,513
11	429,592	398,855	828,447	106,932	138,345	24,238	50,314	17,839	0	45,954	598,488
12	440,605	369,812	810,418	110,140	142,425	24,965	50,932	19,058	0	47,469	568,411
13	451,155	337,846	789,002	113,444	146,616	25,714	51,559	20,292	0	49,051	537,272
14	461,060	302,842	763,902	116,848	150,969	26,485	52,194	21,677	0	50,613	505,029
15	470,296	264,564	734,860	120,353	155,426	27,280	52,838	23,038	0	52,270	471,678
16	469,297	219,359	688,656	123,964	160,039	28,098	53,490	24,514	0	53,936	429,147
17	467,235	170,604	637,839	127,682	164,613	28,941	54,152	25,526	0	55,994	385,903
18	464,027	118,114	582,142	131,513	169,322	29,810	54,823	26,570	0	58,119	341,947
19	459,584	61,696	521,280	135,458	174,168	30,704	55,503	27,644	0	60,316	297,279
20	453,814	1,144	454,958	139,522	179,155	31,625	56,193	28,749	0	62,588	251,899
21	350,022	0	350,022	143,708	217,130	32,574	56,892	29,743	96,740	1,182	188,154
22	234,404	0	234,404	148,019	224,271	33,551	57,601	23,887	109,232	133,119	0
23	108,003	0	108,003	152,460	230,999	34,557	58,320	16,475	121,647	138,122	0
24	0	0	0	157,033	237,929	35,594	44,189	10,048	103,354	113,403	0
25	0	0	0	161,744	245,067	36,662	44,631	0	0	0	0
26	0	0	0	166,597	252,419	37,762	45,077	0	0	0	0
27	0	0	0	171,595	259,992	38,895	45,528	0	0	0	0
28	0	0	0	176,742	267,792	40,062	45,984	0	0	0	0
29	0	0	0	182,045	275,825	41,263	46,443	0	0	0	0
30	0	0	0	187,506	284,100	42,501	46,908	0	0	0	0

Click [here](#) to read important notes about the model.