



WHITE PINE

INVESTMENT COMPANY

When Can We Retire?

Case Study: James and Susan Johnson

Background

The Johnsons have the following financial profile: Now both in their mid-50's, they have a combined salary of \$210,000. When they are retired, they are expected to have a collective \$45,000 in social security benefits. While neither has a pension, they have been contributing to both their companies' 401k plans and brokerage accounts totaling \$700,000 and \$625,000 respectively. They have been living in their home for the last 12 years and have recently refinanced a \$250,000 loan with a 3.9% APR. Beyond mortgage payments they expect to spend \$82,000 annually and are now concerned about their retirement goals being met.



Problem

Given their moderately aggressive portfolio allocation, the Johnsons expect their assets to grow 6.1% per year. Considering a 2% inflation rate and their current lifestyle trend, they would like to know:

“When Can We Retire?”

Solution

In general, the longer a couple can wait to retire, the better their plan will work. For each year they wait, there is one less year of spending and one more year of saving. Several critical variables must be considered before answering the Johnson's question. Will their assets have enough time to grow to a sufficient level to maintain their standard of living? Will they be willing to adjust their spending levels after they retire especially during downturns in the market? How much risk are they willing to take during their retirement?

If the Johnsons were to retire at the age of 60, it is likely that their assets will have grown to a sufficient level to sustain their standard of living throughout retirement. However, since much of their income needs will come from their portfolio, and the portfolio must take on some level of risk, there is only a 64% chance their money will take them to age 90 (see first graph on next page). The Johnsons are not willing to retire knowing there is a 36% chance they'll run out of money. If they work another five years to age 65, their chance of success rises to 93% (see second graph on next page), so that is what they have chosen to do.

White Pine Investment Company

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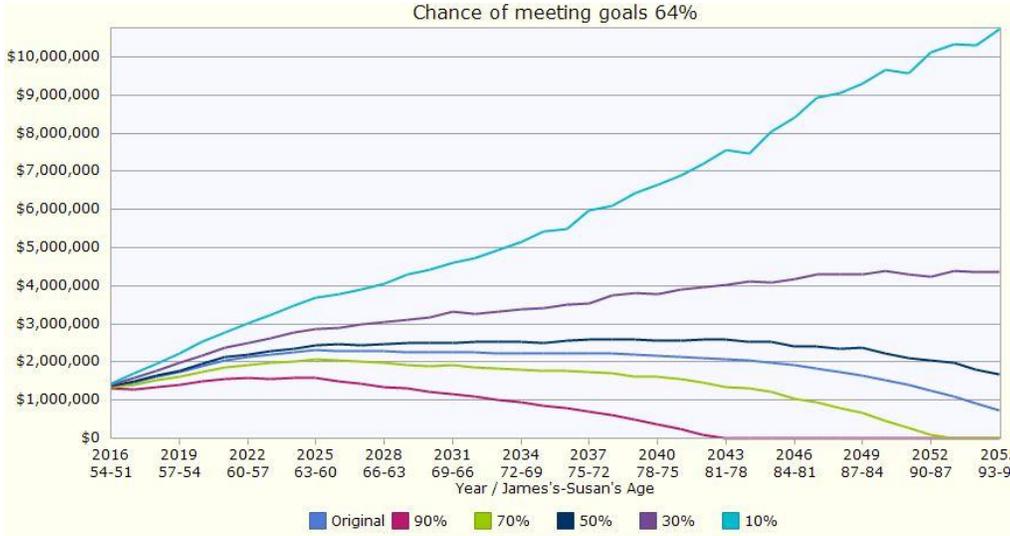
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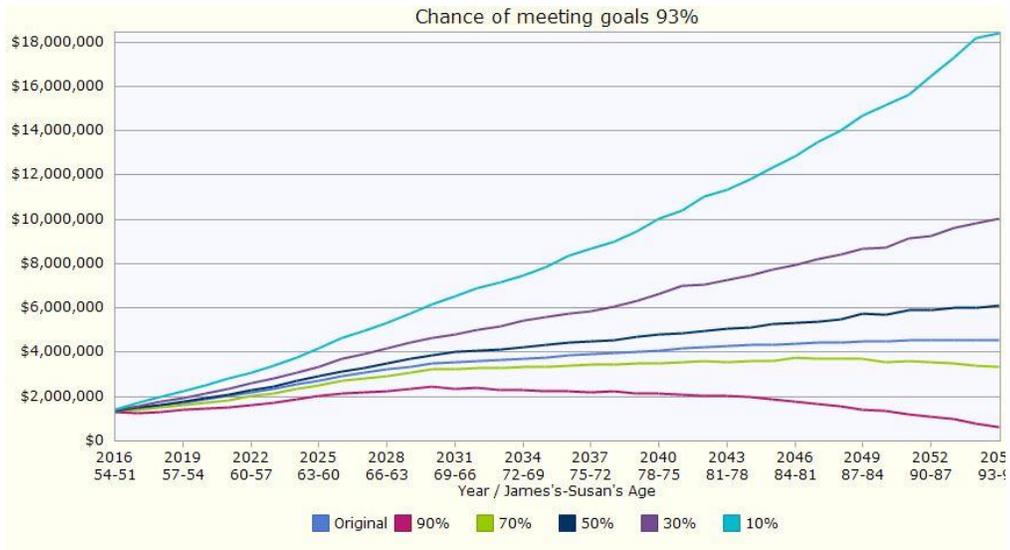
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Probability of successfully meeting their goals if they retire at age 60:



Probability of successfully meeting their goals if they retire at age 65:



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