How Much Will I Have When I Retire Walkthrough

This document is to be used in conjunction with the "How Much Will I Have When I Retire" Excel worksheet. This is supposed to be a VERY interactive sheet and should be your Go-To worksheet when trying to figure out if you are putting money into the correct accounts and try to help guide you through your FI Journey. This is also a great way to determine how close you are to FI!

You will need to know the current value and annual contributions for all of the places that you have money. Estimations are OK!

Different Account Explanations

Traditional 401K: An employer-sponsored defined-contribution pension plan. Employee funding comes directly off their paycheck and may be matched by the employer. There is a 10% penalty for a withdrawal before age 59.5 unless the Rule of 55 applies or you have a qualifying withdrawal. Check the up-to-date laws for qualifying withdrawals on the IRS website (IRS.gov). The money goes into the fund tax-deferred and grows tax-deferred. You will pay tax on it once you withdrawal money.

SEP: A Simplified Employee Pension (SEP) plan provides business owners with a simplified method to contribute towards their employees' retirement as well as their own. It is a traditional IRA and follows the same investment, distribution, and rollover rules as traditional IRAs. The money goes into the fund tax-deferred and grows tax-deferred. You will pay tax on it once you withdrawal money.

403B: A tax-sheltered annuity plan for certain employees of public schools, certain employees of tax-exempt organizations established under IRC Section 501 (c)(3), employees of cooperative hospital service organizations, civilian faculty and staff of the Uniformed Services University of the Health Sciences (USUHS), and certain ministers.

Traditional IRA: An individual retirement account (IRA) allows you to save money for retirement outside of the workplace. The money goes into the fund tax-deferred and grows tax-deferred. You will pay tax on it once you withdrawal money. There are income limits on whether the money is tax-deferred. You will still be able to put it into the account, but it won't be tax-deferred. Make sure to check out the IRS.gov website before investing.

Roth IRA: An individual retirement account (IRA) allows you to save money for retirement outside of a workplace. You pay taxes on the funds when you contribute but they grow tax-free and withdrawals are tax-free. You must own your account for at least 5 years before withdrawal to prevent from owing federal taxes.

457(b): State and local government employees are eligible. This type of account does not charge a penalty for early withdrawal. There is a ROTH 457(b) where you pay your taxes upfront but the excel sheet is not designed for that.

Brokerage Account: An after-tax investment account that allows you to buy and sell a variety of investments, such as stocks, bonds, mutual funds, and ETFs. Some examples are TD Ameritrade, Vanguard, Charles Schwab, Robinhood, E-Trade, etc.

After House is Paid off: This is money that is currently being used for a mortgage but will be invested once the house is paid off in some sort of brokerage account. Details on how to fill it out are below.

Health Savings Account: This is a tax-advantaged account created for or by individuals covered under high-deductible health plans (HDHPs) to save for qualified medical expenses. The money put into the account is tax-deductible, grows tax-free, and withdrawals are tax-free.

Cash/Equivalents & CD's: These are liquid funds that are stored in places such as bank accounts, debt securities with maturities less than 90 days, commercial paper, treasury bills, or short-term government bonds with a maturity date of three months or less. Note: that list is not exhaustive. Certificate of Deposits (CD's) is a low-risk savings tool where the customer agrees to leave a lump-sum deposit untouched for a predetermined period of time in exchanged for a bank or credit unions provide a guaranteed interest rate.

This is a quick explanation of each type of account. This is NOT meant to be all of the rules and caveats for each type of account. Please contact a tax professional or financial advisor for all up-to-date rules for each of the account types if you don't fully understand them.

Worksheet Explanation

The top section of blue highlighted cells is information that MUST be entered to obtain results.

Expected % Return & Expected % Return @ FI

The expected % return can be adjusted based on your risk tolerance. The stock market can be very volatile and your overall funds can decrease up to 30% at any given moment. However, over a long stretch of time, the stock market will increase and the longer you are in the stock market the better chance you have at having a higher return on investment.

In the FIRE community, we often use the S&P 500 as a benchmark when estimating the return on investments. From 1990-1999 the S&P averaged 18% annually. However, from 2000-2009 the market endured a major terrorist attack *and* a recession the average annual return was -1%. Looking over the 20 year period from 1990-2009 the market averaged 8%. All of this information can be found at the website http://www.moneychimp.com/features/market_cagr.htm.

If you are a person who can tolerate the volatility of the stock market then you would be a person who would be considered as having a high-risk tolerance. If you are this type of person I would recommend entering an expected % return of 8%.

If you are a person who doesn't like the idea of your total portfolio dropping 20-30% then more than likely you are going to be investing in more low-risk options. These types of investments include bonds,

treasury bills/notes, money market accounts, annuities, high-yield savings accounts, etc. These accounts are more tolerant to swings in the stock market and you won't see the 20-30% drop; but, you also won't see the 20-30% increase. If you only invested in low-risk investments then you should expect a return on investment around 3%.

There are a lot of opinions on what percentage of your portfolio should be in high-risk versus low-risk accounts based on age, time to retirement, and risk tolerance. This is ultimately something that you will have to determine on your own but remember, the ***more time*** you leave your money in the market the better chance you have at a positive outcome.

Once you get into your retirement years you will need to keep on top of your assets but the standard advice amongst almost all financial advisors is that money is moved into lower-risk accounts. Therefore, if you chose a higher value (>5%) for your "Expected % Return" then I recommend that you choose a lower percentage for the "Expected % Return @ FI".

Retirement Age Goal

I think we would all like to have the ability to retire at an early age. This worksheet is designed so that you can play with this number to estimate whether your current investment options are going to allow you to retire at the age you want without running out of money.

Years to Pay off House

This was written into the worksheet with the assumption that once you are done making mortgage payments that you invest that money to further your after-tax accounts. Estimate the number of years you have left on your mortgage until it is paid off. This blue box is optional. Put zero if you have either paid off your house or don't plan on investing that money when you are done paying off your mortgage.

Withdrawal/Year @ FI

These are your expected expenditures once you reach FI. This number can vary widely depending on age, expected medical requirements/benefits, and lifestyle choices (just to name a few big-ticket items). As we have looked at in Living Quarters Path to FI the average expenditures can widely range depending on income. If you want to continue to live in retirement just like you do now, then look at your current spending habits (minus mortgage) over the past 12 months and use that as your number. Medical benefits can move this number greatly but there are too many variables to accurately predict this for this worksheet.

Social Security Calculations

These two boxes are optional to fill out. The social security administration has an online calculator to determine your estimated monthly benefit amount. This calculator can be found at **https://www.ssa.gov/OACT/quickcalc/ .** The great part about this estimator is that you can put your

estimated FI date in there to accurately estimate your monthly payout at age 62! Enter the information from the website into “Age to Start Withdrawals” and “Monthly Benefit Amount”.

Possible Investment Accounts

Enter the amount you currently have in each account under the “Present Amount” column. Under the “Annual Contribution” you need to put your annualized contribution amount. For example, if you put $100/month towards your account then you should enter $1,200. There will be accounts that you won’t have.

As you populate each of the account types you will see that calculations are being performed and numbers will auto-populate under the three columns labeled “Amount at…”. Depending on the information that you entered at the top of the screen the values will appear in one (or multiple) column(s) that shows the estimated amount you will have.

TIME TO PLAY

There are a lot of options when determining what you should be doing with your money and where you should be putting your money so that you are best prepared for the day you retire. The earlier you make the decision on where to put your money, the better prepared you will be for the day you retire. But don’t worry if you are close to retirement, there are catch-up contributions for some of the accounts that allow you to sink more money into most of your accounts!

The two biggest areas that we will focus on are tax-advantaged money (tax-deferred or tax-exempt) and after-tax money. Typically money that is in a tax-advantaged account can’t be touched until you reach the age of 59 ½ without a 10% penalty. There are some small caveats that do allow qualified distributions before that age but the Excel sheet was not designed for that and we will not be reviewing those at this moment.

*****If you plan on retiring before the age of 59 ½ then you will need to put enough money in after-tax accounts to live on until your other funds become available. *****

Once you get all of your information plugged in, there is a table and a chart at the bottom that reflects the money that you should have at retirement and whether you will run out of money in retirement or not. If you don’t like what you see then go back and adjust the numbers until you find what works for you!

Final Note

If there is something that you find incorrect or would like me to customize the Excel sheet just get ahold of me via an e-mail at feedback@eeonfire.com and I will respond and help you the best way possible!