Is $1 Million Too Little to Retire On?

By Editor Test *Mon, Jun 10, 2013*

An article in the business section of yesterday's New York Times suggested that $1 million is not enough. Have we redefined retirement to mean "independently wealthy"?

The New York Times, bless its good grey heart, informed its readers yesterday that $1 million in savings isn’t enough to retire on.

Many *Times* readers must have nodded in dolorous agreement as they read that story over their Sunday coffee, but I wasn’t one of them. To have a mere $1 million in savings is a hardship that I would wish on myself and on my closest friends.

Seriously, I understand where the *Times* is coming from. If your lifestyle costs $300,000 a year, which isn’t rare in Manhattan, then $1 million in savings probably won’t last for 20 or 30 years, even if you start riding the subway instead of using taxis (or a car service).

So, I agree with this much: If someone in the highest tax bracket lulls himself into thinking that a $1 million nest egg will generate the same income he earned during his working years, he’s in for a nasty surprise.

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But there’s a straw man hiding in that argument.

Have we now set the benchmark for adequate retirement savings at a point where savings must generate not only 100% of pre-retirement income, but also hundreds of thousands more for long-term care and/or a legacy? And must we use today’s risk-free rate to calculate the initial stake? That’s what the article seemed to assume.

That’s putting a huge burden on the saving and investing side, and none on the cost-reduction side or risk-transfer side. For all but the wealthiest retires, the task of economizing—paying off one’s house and cars, shedding college or consumer debt, delaying Social Security until age 70 and considering annuities—will as important as the task of saving and investing.

Or perhaps, for a few people, we’ve re-defined retirement sufficiency upward to mean “independently wealthy.” An advisor recently told me that his most affluent clients don’t see any distinction between discretionary and non-discretionary expenses. Those clients will be difficult to satisfy.

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Aside from its fear-inducing overtone, another noteworthy aspect of the *Times* article was its assumption that the 4% withdrawal limit is the only way to avoid running out of money in old age.

The article suggested that $1 million could safely generate only $40,000 in income per year, and portrayed people with only $1 million as having few options. Outside of a major metropolitan area, a 65-year-old person (or couple) with $1 million actually has a lot of options.

If they're truly dissatisfied with the 4% rule, a risk-averse couple could put $800,000 in a joint-and-survivor life annuity at age 65. Even at today's terrible rates, they'd get $50,400 a year (with 100% continuation to the surviving spouse *and* an installment refund to beneficiaries), and still have $200,000 for emergencies or a legacy.

Alternately, a couple could put $500,000 in a 10-year period certain annuity paying $54,000 a year and invest the other $500,000 in a 10-year fixed rate annuity at 3% (with the flexibility to withdraw up to 10% per year penalty free). At age 75, with no withdrawals, the fixed annuity would be worth $671,000. Or, if they have a bigger risk appetite, they could put the non-annuitized assets into a diversified portfolio of stocks and bonds. They could go in a completely different direction and buy $200,000 worth of longevity insurance that pays about $60,000 a year at age 85.

But they still won't be living the way millionaires expects to live, you say. That depends on how you look at it. As a Middle Eastern proverb says: "He who is not in debt is rich."

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The *Times* article, which was the paper's "most e-mailed" of the day, also bemoaned the fact that owners of high-quality bonds are earning negligible interest. On the one hand, I agree: Low rates are indeed a plague on people looking for a safe home for their cash.

On the other hand, low rates are a blessing for people who've been holding stocks for a decade or two.

Without rate repression, the stock indices might well be much, much lower today than they are. And therefore the equity side of Boomer retirement account balances would be much, much lower. (Wall Street apparently agrees: Stock and bond prices trembled after Ben Bernanke hinted in May that the Fed might slow down its bond purchases.)

Like the loveable hooligan in Damon Runyon's story, "Earthquake," who redeems himself by holding up the doorway of a burning school so that all of the children can escape the flames, Fed policy has effectively, if not intentionally, propped up stock and bond values to give Boomers a temporary doorway to exit through.

So instead of cursing low annuity rates or waiting until interest rates go up (and stock and bond values to go down), maybe near-retirees should grab this opportunity to trade their appreciated assets for life annuities with 15-year periods certain.