Preparation Outline 3: Visual Aids

by

Larry Sather

Specific Purpose: I want the audience to understand how to accumulate money for retirement.

Thesis Sentence: Invest 10% of earned income in long-term investments yielding an average total annual return of 10% for 30 years.

Introduction

When you retire, how many of you would like to know that you will never have to worry about money again? Of course, all of us would like that, but how many of us will be in that position? I worked as a financial planner for a few years in the early 1990s, and I can help you decide if you will be free from money worries when you retire. The rest of the speech is designed to help you calculate how much money you will need when you retire, so that you can do something about that now—and every year between now and when you retire.

Body

I. What is the most important thing you need to know about investing for retirement?

 A. Financial planners who know what they are talking about will tell you that you need to have a well-diversified portfolio covering the major asset classes.

  1. You will need some fixed return assets such as savings accounts, fixed annuities, bonds, bond funds, social security retirement benefits, and, perhaps, company pension benefits.

  2. You will need some variable return assets such as stocks and stock funds.

 B. But, I am here to tell you that diversification is not the entire story.

  1. To maximize your retirement prospects, you should live on not more than 70% of your gross income.

2. You should not be paying more than 20% of your gross income on debt payments.

3. You should be saving and investing at least 10% of your gross income for your retirement.

4. You should not be borrowing or spending any of your retirement investments for any other purpose.

   a. down payment on a home

   b. education for your children or you

II. How do you decide how much income your investments will need to generate when you actually retire?

A. Some planners like to use a formula based upon a percentage of your present income.

1. 50% of gross or net income

2. 60% of gross or net income

3. 70% of gross or net income

4. 80% of gross or net income

5. 100% of gross or net income

B. Other planners like to do a needs analysis.

1. Calculate your current living expenses.

2. If you own a home, and if your mortgage will be paid off when you retire, subtract the principal and interest expense (not the real estate taxes and homeowners' insurance).

3. Subtract the amount of Social Security tax you now pay (7.65% currently).

2. The result is the amount of money you will need for retirement income.

C. Include an inflation calculation to account for the loss of purchasing power of future income.

1. 3%

2. 4%

3. 5%

(Note: Be careful. Just because we haven't had much inflation lately, that doesn't mean we won't have more in the future).

C. Estimate the amount of retirement income you will receive from a variety of sources.

1. Social Security retirement

2. government or military pensions

3. Individual Retirement Accounts

4. other private savings and investments.

III. Let's take a look at how much you can accumulate, based upon a consistent annual investment.

A. If you can invest 10% of your gross income each year for 20 years, and if you can realize a total annual return (capital gains, dividends, and price appreciation) of 10%, you can accumulate $56,275.01.

B. If you can invest 10% of your gross income each year for 30 years, and if you can realize a total annual return (capital gains, dividends, and price appreciation) of 10%, you can accumulate $163,494.10.

C. If you can invest 10% of your gross income each year for 40 years, and if you can realize a total annual return (capital gains, dividends, and price appreciation) of 10%, you can accumulate $441,593.00.

D. If you can invest 10% of your gross income each year for 50 years, and if you can realize a total annual return (capital gains, dividends, and price appreciation) of 10%, you can accumulate $1,162,91.10.

IV. How much income will these principal amounts produce?

A. Assume a 4% rate of return.

1. $56,275.01 generates $2,251.00 per year.

2. $163,794.10 generates $6,539.764 per year.

3. $441,593.00 generates $17,663.72 per year.

4. $1,162,910.00 generates $46,516.40 per year.

B. Assume an 8% rate of return.

1. $56,275.01 generates $4,502.00 per year.

2. $163,794.10 generates $13,079.53 per year.

3. $441,593.00 generates $35,327.44 per year.

4. $1,162,910.00 generates 93,032.80 per year.

Conclusion

Well, now you know you need to do if you want to have enough money to retire on. Live on less than you earn, diversify, invest at least 10% of your gross income for retirement, and earn at least 10% per year on this investment until you retire. Calculate the amount of money you will need to retire on, but include an inflation calculation as part of this planning process. Estimate the amount of retirement income you will receive from a variety of sources: Social Security retirement, government or military pensions, and Individual Retirement Accounts, and other private savings and investments.

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Note: The calculations included in this outline are estimates only. You are responsible for calculations for your own retirement. There are a lot of people out there—some qualified, some not—who are perfectly willing to make these calculations for you, for a fee.