



the Plan

Savings Rates

by James B. Twining, CFP®

Many years ago when I was just beginning my budding career, an older and wiser financial advisor told me that “the only rule of thumb is that there is no rule of thumb”. My experience has taught me to believe it. Take savings rates for instance. Many have heard the rule of thumb: “Save 10% of what you earn”. Then there is the rule of thumb for withdrawals: “Don’t withdraw more than 4% of your portfolio”. These rules of thumb are inadequate and can lead an investor into trouble. In this short article I will give some perspective regarding the savings rate issue and in our next installment, Devin Wolf, CFP® will discuss the withdrawal rate issue.

In my opinion, your savings rate should be a function of your **ability** to save and your **need** to save.

Ability to Save

A young investor who is just starting out is typically focused on buying a dependable car and a comfortable home. These are typically financed and the payments take away from the ability to save. It makes sense to secure a reasonable standard of living before becoming overly focused on retirement savings.

A mature investor can typically save more, as the increases in earned income normally outpace increases in the cost of living. Mortgages are paid off, children eventually graduate, and there is more discretionary income.

Need to Save

We save for retirement so that our nest egg can provide withdrawals to replace our pre-retirement income. A low income investor does not need to replace as much pre-retirement income because Social Security Retirement benefits tend to make up a larger portion of the overall income needed. A higher income investor must replace more of the pre-retirement income because Social Security Retirement benefits make up a smaller portion of the overall income needed.*

On the other hand, some high income investors spend much of their pre-retirement income on discretionary, one-time expenses such as a second home purchase, a boat, an RV or other large purchase. They plan on cutting back on those expenses after retirement. This can reduce their need to save.

Summary

The ability to save and the need to save can result in various suggested savings rates. We have advised some younger clients to save only 5% per year, with plans to increase that rate substantially at a later date. On the other hand, we have some more mature, high income clients whom we have advised to save 40% per year. In their situation, this is the savings rate that is required for a successful retirement.

So once again, there is no rule of thumb that can replace **custom** financial planning. The savings rate needs to be sufficient to produce a nest egg that can supply an increasing stream of income over a lifetime. Along with other sources of retirement income, that stream of income must be high enough to replace the current pre-retirement standard of living.

*Social Security Retirement Benefit as a percentage of pre-retirement income:

\$40,000 income: 35.5%

\$120,000 income: 23.1%

\$500,000 income: 5.5%

Based on current income discounted for 2% raises per year for previous years, SSA.gov calculations for full retirement age in July 2015

What we are **not** talking about

Over the past few weeks, any news outlet you turned to was talking in ghoulish, sensationalist tones about the “**Grexit**”: the imminent exit of Greece from the Eurozone. Fear is always good for media ratings, and it sometimes causes markets to fall. To your credit, out of our 450 households, only **one** acted upon that fear by retreating to cash. The rest of you understand that we have already planned for bad markets, and we are always aware that they can occur at any time. Your portfolios are well-designed, with a sufficient percentage in bonds for staying power to last many years after a market drop. You also understand that as a whole, those who attempt to time the market are less successful than those who invest with discipline and a steady hand.

And back to Greece: It is a tiny economy, producing just a bit more than 1% of our gross domestic product. Its culture, history, architecture, and beaches are stunning, and worth seeing and paying attention to. Their economy? Not so much.



on a Personal*note*

Jamie and Jeanne



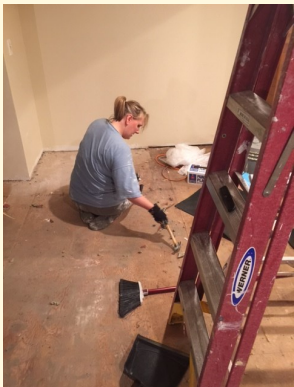
In June, Jeanne and I bought two Hawaiian Glide Stand Up Paddleboards (SUPs) from Kaye Clevenger. The yellow board is for racing; it is 14' long and only 25" wide. It's fast, but can be tippy. The shorter 11' board is more stable and relaxing. We've spent quite a few evenings on the lake. One night with a full moon at 11PM we paddled into the middle of the lake. The water was as smooth as glass and the moonlit night was like a fantasy.

The grandkids aren't too sure about it yet. As I get into deep water, they get nervous. One of these days I'll get one of them to stand up and paddle by themselves.

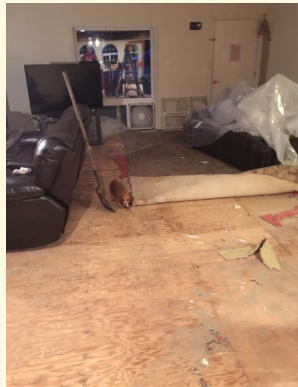
We have a lot of warm summer left. If you want a board for either a cardio-burning workout or just a relaxing paddle, give Kaye a call, or visit <http://hawaiianglide-sups.com>



With Oliver on Jeanne's Hawaiian Glide SUP



Dave and Bonnie
(DIYers... NOT)



We are currently living in utter chaos at home as we are reflooring the entire house and completely repainting the kids' rooms and our living room and kitchen. Our youngest, James said it best when he said: "This place is a DISASTER!" Hopefully, they will be back in their own rooms by next Christmas :)



Nate and Lisa

Summertime has come early here in Washington! I've been taking the kids out fishing, golfing, hiking and we're planning to do some camping here in the near future as well. There's no place better than Bellingham in the summer and I hope to take advantage of everything we have around here.



Of course I still need to allow my daughters to pursue their own interests, so Finley completed her first year of ballet and tap dance! We all attended her big production at the

Mt. Baker Theatre and gave her a bunch of roses in honor of her amazing performance.

Annalise, on the other hand, is just happy to play outside in the sunshine!



Devin and Stephanie

Steph and the kids have been busy so far this summer. From swimming lessons, to Vacation Bible School, to playing with friends they seem to be exhausted by the time I get home from work! Elodie turned 2 and Graedon turned 4 in June. We enjoyed birthday parties with family (yes, multiple) as well as a party with friends at the kangaroo farm in Arlington.



In other news Stella lost her first tooth! She let Steph pull it without even flinching.

I was able to sneak away for a day to attend the US Open golf championship at Chambers Bay in Tacoma. It was amazing to see my first live PGA event and be part of this historic event for the Pacific NW.

We decided to forgo "big" fireworks for the 4th this year, but still lit small fireworks and attended Bellingham's firework show so the kids could enjoy the fireworks and learn about our independence.

