4 WAYS to Evaluate Retirement Preparedness

Your clients want to retire with ease, but that's not always the case. To help them realize their retirement preparedness, here are four "rule of thumb" metrics to help determine whether they'll have enough money to retire comfortably.

NET WORTH   01

Calculating net worth is simple and easy—although less reliable. However, it can serve as a quick and effective way to total all assets and liabilities.

TO CALCULATE NET WORTH:

1. Add up all savings, investments, and value of physical properties like a car, house, or other valuables

2. Subtract any debts

$$(\text{SAVINGS + INVESTMENTS + HOME VALUE + CARS + VALUABLES}) - \text{DEBT} = \text{NET WORTH}$$

02   RETIREMENT REPLACEMENT RATIO

A retirement replacement ratio is the amount of expected income in retirement, divided by the income before retirement. Keep in mind, the target ratio is generally near 70%, or the amount your client will need to maintain their lifestyle.

TO CALCULATE THIS RATIO:

1. Find the expected income in retirement, then divide that number by the income before retirement

$$\frac{\text{EXPECTED INCOME AFTER RETIREMENT} \div \text{INCOME BEFORE RETIREMENT}}{\text{RETIREMENT REPLACEMENT RATION}}$$

AGE-BASED SALARY MULTIPLIERS   03

Another simple method that's more of a guideline than a calculation. This metric was first developed by Fidelity Investments using age-based milestones for retirement savings.

TO USE THIS METRIC, FOLLOW THE TABLE BELOW:

AGE

	30	40	50	60	67
RETIREMENT SAVINGS ACCUMILATED	1 YEAR OF SALARY	3x THEIR SALARY	6x THEIR SALARY	8x THEIR SALARY	10x THEIR SALARY

04   FINANCIAL INDEPENDENCE NUMBER

This number is based on the 4% rule, which states a retiree may withdraw 4% of retirement assets each year for approximately 30 years without additional income.

TO CALCULATE THIS FINANCIAL INDEPENDENCE NUMBER:

1. Calculate a client's annual spending, then multiply it by 25

$$\text{ANNUAL SPENDING} \times 25 = \text{FINANCIAL INDEPENDENCE NUMBER}$$

FINANCIAL INDEPENDENCE GROUP®