NEWSLETTER MAY 2006

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INVESTMENT THOUGHTS FROM CHRIS AND DON

Dear Clients,

Everybody has one and everybody thinks about it. George Foreman even talks about it. "The question isn't at what age I want to retire, it's at what income." Foreman speaks of his "Number," a term coined by author Lee Eisenberg in his book of the same title. A new name for an old concept, the Number refers to the amount of money an individual must have in order to achieve a desired quality of life during retirement. In the past, retirement was largely determined by reaching a certain age. Gone are the days of this cut and dried progression. Today, with ever-rising standards of living and the alleged perils facing social security, not only is the Number increasing, but it is also becoming more difficult to estimate.

The Number applies to everybody and it does not discriminate by income. Having made millions from sales of his self-named grill, Foreman shows that everybody must consider it. No two, however, are the same. Those who can afford it are likely to be used to a higher standard of living, needing more to face retirement, while those who live more simply will be able to retire comfortably on less. Unfortunately, one can never know exactly how much one needs to retire, as there are countless and ever-changing variables involved in arriving at the Number. Even though it may be imprecise and consistently evolving, one can make a reasonable effort to both estimate a Number and take appropriate measures to reach it.

Determining your Number

I have enough money to last me the rest of my life, unless I buy something. - Jackie Mason

It is important to have a good approximation of just how much money you are going to need to retire comfortably. Some of the most important considerations to take into account when trying to estimate your Number are the approximate length of your retirement, cost of living before and during retirement, expected retirement income, the financial goals you may have, inflation, and the return you will make on your investments.

Perhaps the most difficult aspect to accurately predict is just how long your retirement is going to be. The two components of retirement length are your age when you retire and the length of your life. Forecasting the age at which you will retire is one matter. Predicting how long you will live is another. Much of your Number's reasonableness is contingent on just how long you are going to live. It is better to allow too much time for your retirement than to underestimate it and risk running out of money.

Unlike predicting the length of retirement, you should be able to reasonably estimate your cost of living. While most people find expenses to be somewhat less during retirement unless they travel a great deal, have expensive hobbies or retire with a lot of debt, our general rule of thumb is that you will need 100% of your pre-retirement income at the beginning of your retirement (some maintain that 70-80% is an appropriate figure to use; we'd rather stay conservative).

The amount of your retirement income–and its source(s)–will vary. You need to consider pensions, 401(k)'s, family inheritance, social security benefits, and the decision whether or not you continue to work. Often, retirees make the decision to "work" part-time (although not always in paid positions). A part-time job not only provides supplemental income, but also allows retirees to stay active and helps prevent the sense of monotony that some may find in retirement.

Every bit as important as your monthly cash flows, and perhaps even more difficult to factor into

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your retirement planning, are the aspirations you have that will land outside your living expenses. Whether you make gifting an annual occurrence, hope to make a large donation funding a new hospital wing, or plan to leave a large inheritance, these outlays will play a major role in determining your Number.

Inflation is somewhat less obvious in its impact on your Number. A fundamental and often overlooked factor, inflation erodes buying power. You must assume your spending will rise to keep in line with consumer prices and that you will probably need more money to pay for the same amount of goods and services as your retirement progresses. The "Rule of 72" tells us that at 3% inflation, prices will double in 24 years; at 4%, it takes only 18 years.

Like inflation, the return you earn on your investments will be variable and unpredictable. At the same time, it is imperative that your investments provide a rate of return that is greater than inflation. Proper asset allocation can help minimize your risk while maximizing the probability that your returns outpace inflation.

Reaching your Number

There are a lot of books telling you how to manage when you retire. What most people want is one that'll tell them how to manage in the meantime. - Unknown wise person

Knowing your Number but not knowing how to reach it accomplishes little. There are a number of things you can do to improve your chances of realizing a comfortable retirement. It is especially important for you to form a retirement plan, start saving immediately, take advantage of employer sponsored retirement plans and personal savings options, and utilize your financial advisors.

The biggest step you can take is to start planning for your retirement. The AARP (American Association of Retired Persons) suggests that you begin your planning by asking yourself four questions; **Where do you want to be? How much time do you have to get there? Where are you now? What vehicles give you a chance to get there on time?** By setting an investment goal and timeline, taking a current financial snapshot, and analyzing the options available to you, you are taking the first step in securing a happy retirement.

We cannot emphasize enough the importance of starting to save for retirement as soon as you are able. Use time and the power of compound interest to your advantage by saving early and often. The longer you invest your money the more powerful the effect of compound interest. Start saving sooner rather than later to make the most of Benjamin Franklin's "ninth wonder of the world."

Employer sponsored retirement plans, such as a 401(k) or Simplified Employee Pension Plan, and personal savings accounts, like an IRA, are critical to adequate retirement preparation. If available to you, employer sponsored retirement plans can increase the amount you save while decreasing your income taxes by allowing you to automatically save before taxes are withheld. Often times, employers will match a part of your contribution. This mandates a contribution from you, at least to the point of taking advantage of the full employer match. IRA's, particularly Roth IRA's, are tremendous investment vehicles that many people still fail to utilize. We continually urge you to open a Roth IRA and, once open, make yearly contributions.

Much has been made in recent years of the dangers baby boomers face as they head towards retirement. Retirement, however, does not need to be a daunting experience. With proper preparation, retirement can be eagerly anticipated and timely rather than feared and possibly delayed. As financial advisors, it is our goal to help you determine your Number and, most importantly, it is our job to design a plan to help you reach it.

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