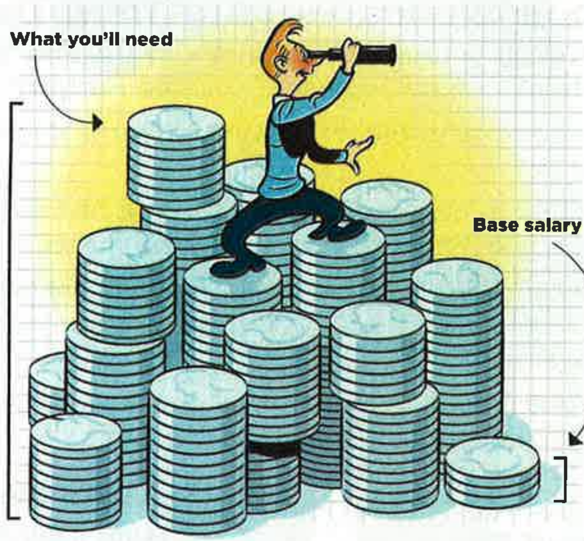
Money Saver

These Are the New Rules for Financial Freedom

An update of 5 common principles for managing your fiscal life

By EILEEN AMBROSE

Save 10 percent of income for retirement. This may have worked decades ago, when workers had pensions and shorter life expectancies. Today, 15 is the new 10. Workers should save at least 15 percent of their gross income—which includes any employer 401(k) match—to maintain their lifestyle in retirement, says Stuart Ritter, a senior financial planner at T. Rowe Price in Baltimore. "If you have not saved anything, however, the older you are, the more above 15 percent you need to go," he says—such as 36 percent if starting at age 50.



At retirement, you should have 10 to 12 times your final salary in savings. Along with Social Security, this should be enough to generate 70 to 80 percent of preretirement income for most people, says Charlie Farrell, chief executive of Denver-based Northstar Investment Advisors.

Your annual income in retirement should be 70 to 80 percent of your preretirement gross income. You likely already live on that amount once you subtract your 401(k) contributions, Social Security taxes, and commuting and other work-related expenses from your paycheck. Those costs will disappear in retirement, which is why you may need only 70 to 80 percent of your old salary to maintain your lifestyle. Be aware that if you start spending thousands in retirement on travel and expensive hobbies, you will need more.

Need help figuring this out? The Employee Benefit Research Institute offers the Ballpark E$timate online calculator at choosetosave.org/ballpark. It can help you determine whether you're on target to meet your income needs in retirement.

You need three to six months' worth of living expenses in emergency savings that can be accessed quickly. This rule is still golden. "Americans in general have no money in emergency savings," says Mari Adam, a Boca Raton, Florida, financial planner. "If they have to fix the car or repair the air conditioner, they will put that on a credit card that charges 18 or 22 percent interest." She recommends investing that money in a balanced mutual fund that has a mix of stocks and bonds, which will have a higher return than a savings account but not too much risk.

Subtract your age from 100 to determine how much you should hold in stocks. Under this old rule, 55-year-olds should have 45 percent of their investments in the stock market. That's too conservative, financial planners say, given that people are living much longer and will need the growth that stocks can provide for both keeping up with inflation and not running out of money. A better guide: Subtract your age from 120.

NATHANIEL WELCH; ILLUSTRATIONS BY MARK MATCHO

When You and Your Honey Fight About Money

Research shows that financial arguments between spouses escalate with age. Here are the 6 most common spats–and how to make peace By JOE KITA

IF YOU AND your partner have been squabbling more and more about finances, you're not alone. According to a 2012 Harris Interactive poll of 1,005 adults, the average number of money fights that couples have increases with age. Just 15 percent of 18- to 34-year-old couples said finances trigger arguments, compared with 36 percent of 55- to 64-year-olds. (Beyond that, the rate dips to 20 percent.)

"Financial disagreements among couples over 50 tend to be pretty intense," says Jeff Motske, CEO of Trilogy Financial and author of *The Couple's Guide to Financial Compatibility*. "Situations you never anticipated arise, like paying for the kids' college at the same time you're taking care of parents. And if you're behind the eight ball on saving for your own financial independence, there can be some major arguments."

What's everyone squaring off over? We talked to financial planners and researchers to uncover the most common later-life money fights. Then we asked for their advice.

They didn't pull any punches.

MONEY FIGHT!

How much money is enough for retirement?

What it's about. One spouse insists there's plenty invested and in the bank for a long, comfortable retirement and wants to stop working. The other needs more to feel secure enough to retire.

Find your way out. Shoot for an annual retirement income of about $75,000, or $6,250 per month, says Michael Norton, a Harvard Business School professor and coauthor of *Happy Money: The Science of Smarter Spending*. His research found that once couples reach this level, any extra effort toward earning or saving more doesn't make them significantly happier. "It's not that more money makes you unhappy," he explains. "It's just that it doesn't do that much more for you" after your basic comforts are met. The number varies with the cost of living where you reside, of course. But Norton says that "when we looked at a representative national sample of Americans, the magic comfortable standard was around $75,000."

Skeptical? Do your own happiness experiment. "Practice retirement by living off different fixed income levels for six months at a time," Motske says. Note how your level of satisfaction changes. Finding your sweet spot early can defuse this argument entirely.

MONEY FIGHT!

How should we reward ourselves in retirement?

What it's about. RV or beach house? Home renovation or world cruise? One spouse wants a Lexus; the other would rather tour Texas.

Find your way out. Make a list of your retirement dreams and have your partner independently do the same. Next, rank them on a 1-to-10 scale and estimate what each will cost. Then compare the lists, looking not just for overlap but also for opportunities for compromise ("You can do that while I do this!"), which will ultimately strengthen the relationship.

"The main goal is to remove the emotion as much as possible and turn this into a fact-based decision," says Mary Evans, a certified financial planner with Evans Wealth Strategies. "I've found that when couples are having this fight, they've never really asked themselves how important a certain dream is or put a number on it. Seeing things in black and white changes everything."

Should we continue to support the kids?

What it's about. One partner insists on funneling funds to an adult child, while the other argues it's high time young Cash became financially independent.

Find your way out. Develop a three-year plan, says Donna Nadler, a financial adviser and senior partner with Capital Management Group: "This gives clarity and sets limits that the child is aware of. Your support should taper over the period, and everyone should evaluate the plan each year." If you are lending rather than gifting money, then Motske recommends "treating it as a business transaction with a written agreement and a clear understanding of how it will be paid back." Putting deadlines and rules on child support eases parental conflict.

Should we help out our aging parents?

What it's about. One spouse feels obligated ("It's Mom and Dad!"), whereas the other resents that the in-laws didn't plan better for their retirement.

Find your way out. Do some soul-searching and you'll realize that the issue here isn't whether to financially support aging parents, but rather to what degree. "Most couples agree they have a responsibility to help elderly parents," Nadler says. "The conflict is over how much support to give them."

First, keep in mind that "investing in others," according to Norton's research, is one of the best ways to buy personal happiness. "Being generous makes us feel good," he says, "especially when we're giving to people close to us where it has a noticeable impact."

Never compromise your own financial well-being, however, to do so. Make sure your own house is in order before even considering helping out your parents or in-laws.

"You have to make sure you're in good financial shape before you can help your parents or kids," says Motske. "Remember: There are no scholarships for retirement."

How aggressively should we invest?

What it's about. After a slow start on retirement saving, one spouse wants to make up for lost time with riskier investments, while the other thinks that is too much like gambling.

Find your way out. Betting your future on a stock or a start-up is dangerous. If the nest egg shatters at this stage of life, you may not have enough earning power to lay another. And deep-rooted tension over something as important as financial welfare can undermine a marriage.

It's time to bring in a pro. It's far safer and smarter to consult a certified financial planner (look for "CFP"

4 Steps to Working as Teammates

A happy and secure future depends on close collaboration

Do you and your spouse want to become a more harmonious duo? Take these steps recommended by Sarah Asebedo, a professor at Virginia Tech who studies financial conflict resolution.

> Agree to disagree. You and your spouse will not always agree when it comes to money. "Your job is not to avoid arguments—that's impossible—but to understand them, find alignment and work through them," she says.

> Establish a balance of power. One spouse may shirk financial responsibility because he or she feels intimidated. And it isn't uncommon for one spouse to be far more involved in managing the family finances. Have discussions in a neutral place (i.e., not in the office of the spouse who is in charge of finances), and make sure both parties are equally informed and have an equal say about decisions.

> Focus on the future. "Be cautious talking about the past. You can easily get stuck there," Asebedo says. Remember: Your adversary is the financial challenge, not the other person. (If there are lingering relationship issues, consult a marriage or family therapist.)

> Emphasize interests, not positions. A position is "I want to buy a vacation home." An interest is "I want to create family experiences by buying a vacation home." Peace is achieved by identifying the core interests that underlie positions (interests include security, belonging, recognition, control). Since these are basic human needs, they make it easier to find common ground and to work together to realize them. —*J.K.*

after his or her name) with a solid reputation than to go it alone. Ask successful friends who they use, then review the planners' experience and disciplinary history at finra.org/brokercheck and cfp.net.

A good financial adviser will determine how aggressive you really need to be at your level of savings, help make investment decisions based on facts rather than fear, and diversify your portfolio in a way that maximizes returns with a tolerable (for both partners) level of risk.

MONEY FIGHT!

Who gets what in the will?

What it's about. One partner wants to spread the wealth equally. The other would rather be more selective. Note: This argument can intensify with blended families (i.e., stepchildren).

Find your way out. The trend, Nadler says, is toward making "more individualized decisions rather than dividing assets equally." This demands a high level of communication with your heirs—she recommends talking frankly with them about their finances and needs—and with each other.

Plus, Motske suggests scheduling periodic "financial date nights" to hammer out details. "It isn't about going over the portfolio or the budget," he explains. "It's about discussing these bigger issues. When you start having these kinds of intelligent discussions, you'll have fewer arguments and more financial happiness."

If conversations like this are difficult to have, and for many couples they are, consider consulting a financial therapist, a new breed of money counselor with more behavioral training. You can search for one by state at financialtherapyassociation.org. ▪

Jean Chatzky
BACK TO BASICS

Blindsided by Retirement

What to do if you find yourself unexpectedly out of work

YOU PLAN AND plan and plan for retirement. But what happens when it takes you by surprise? Two new surveys say that's not unusual. Research from Voya Financial says that for 60 percent of retirees, the timing of retirement was somewhat or completely unexpected. And the Employee Benefit Research Institute reports that half of workers leave their jobs earlier than expected because of health issues, the need to care for a family member, job elimination or the need, at work, for skills they don't have. So what should you do if you're blindsided by sudden retirement?

Breathe.

Before you can figure out where you're going, you need to ascertain where you are, says New York financial adviser Gary Schatsky, president of ObjectiveAdvice.com. Take a complete inventory of your financial world to get a grip on six aspects: assets, debts, the interest rates on those debts, income (or cash flow), what your expenses are and, of those things you're spending money on, which are important and which are not.

Figure out funding.

Next, determine whether you can cover those costs. That means a deeper dive into your sources of income, says Tim Maurer, a financial adviser in Charleston, South Carolina. First, look at your retirement accounts. Multiply your balance by 0.04, or 4 percent. That's the approximate amount you can pull from those accounts annually with the expectation that the money will last 30 years. Add to that your annual pension income, if any, and what you expect to get from Social Security each year. (Note: You get an 8 percent bump in benefits for each year between ages 62 and 70 that you wait. That argues for delaying Social Security, Schatsky points out.)

Deal with the gap.

If your cost of living is greater than your income, there are two ways to close the gap: Spend less or earn more. "The most dramatic improvement most people can make is to downsize," Maurer says, "and to consider moving to an area with a lower cost of living." Also, as long as you are able, explore possibilities for earning a paycheck, even if it's a part-time job, he adds.

And finally, Maurer says, the easiest way to prepare for sudden retirement is to practice. Estimate the income you'd have coming in during retirement, and try living on that amount. If you can't, start saving more. *—With additional reporting by Arielle O'Shea*

WANT MORE ADVICE? Read previous columns at aarp.org/jeanchatzky.

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