

Chapter 19

2 CRITICAL RETIREMENT CONCEPTS TO TAKE NOTE OF

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CONCEPTS TO TAKE NOTE OF****CRITICAL RETIREMENT CONCEPTS**

*Retirement Calculator Only
Shows you How Much You
Need to Accumulate for
Retirement Fund*

The drawback of the witnesses of most retirement calculators out there is they only compute for you how much you need to accumulate for your retirement fund.

*DOES NOT
Show you How to
Manage It
Post Retirement*

It does not show you or teaches you how to manage it post-retirement.

*DO NOT NEED
\$ 1 Million @ 55
if You Know How
To Manage It*

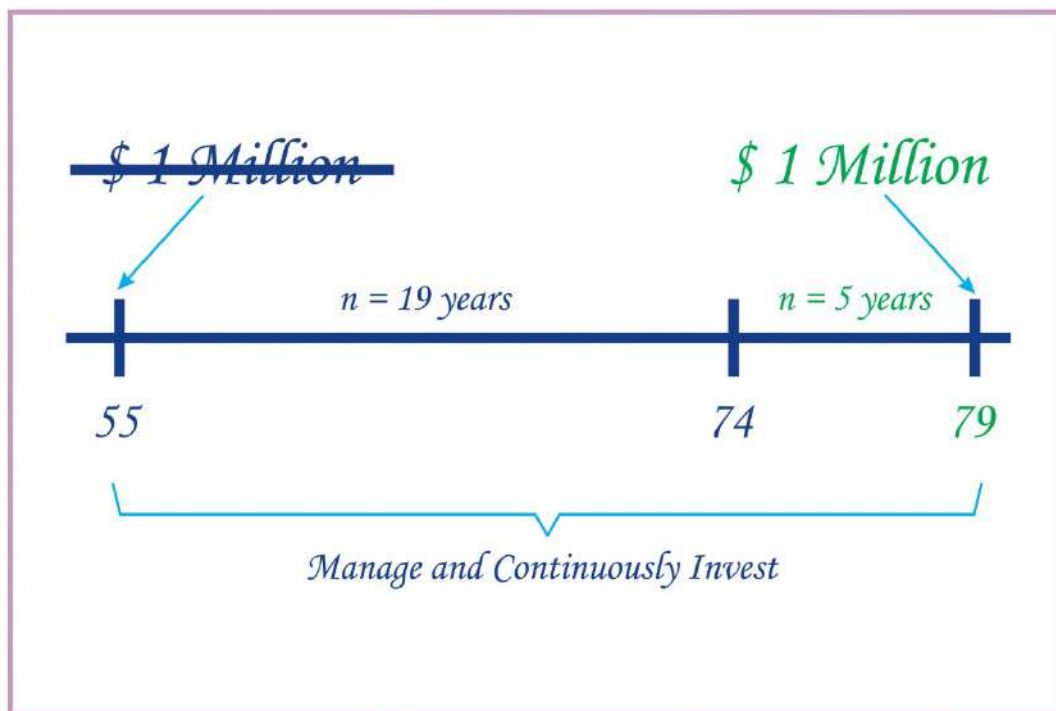
If you know how to manage it, you do not need one million retirement nest egg at the age of 55. After all, as we know if we do not know how to manage and continuously invest in, it does not matter if you have a one million retirement nest egg at the age of 55 because this one million will be eventually finishing up when you reach the years of 74 as shown in the previous chapter.

~~*Retirement Fund @ 55*~~

*Post Retirement
Expenses*

So magic happens when you know that it is not about how much you have in your retirement fund at

the age of 55. The most important factor of course is what your post-retirement expense is and how you adjust for that.



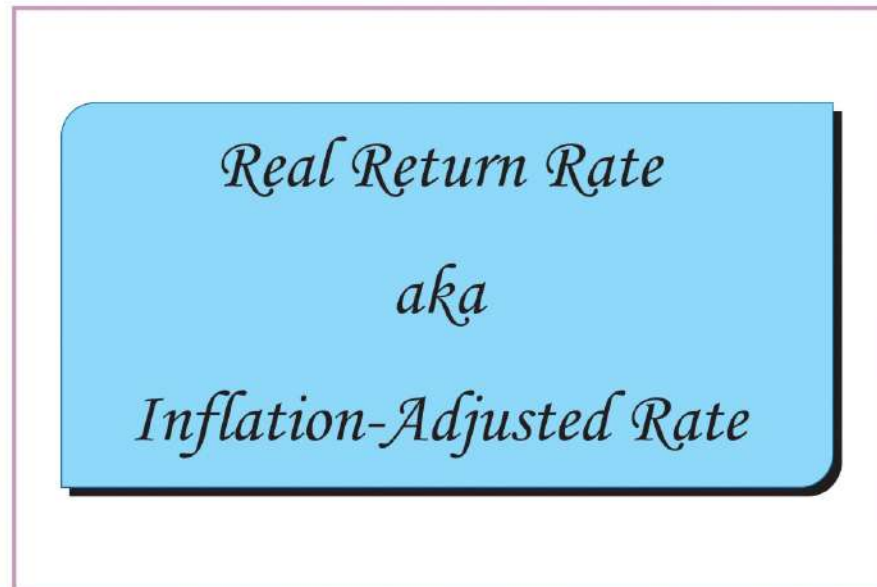
So if you see that is familiar and again let's just shift our focus from having a one million retirement nest egg at the age of 55 and shift that focus to having a 1 million legacy for our children at the age of 74 or even 79 when both the husband and wife passed away. So what needs to happen here? It needs constant management and constant reinvestment of capital.

1. *Lump Sum Retirement Fund @ 55 which Covers 24 years of Expenses, taking into Account Inflation and Retaining Retirement Lifestyle*
2. *An additional lump sum @ 55 to be continuously Re-Invested to generate \$ 1 Million at the end of 24 Years*

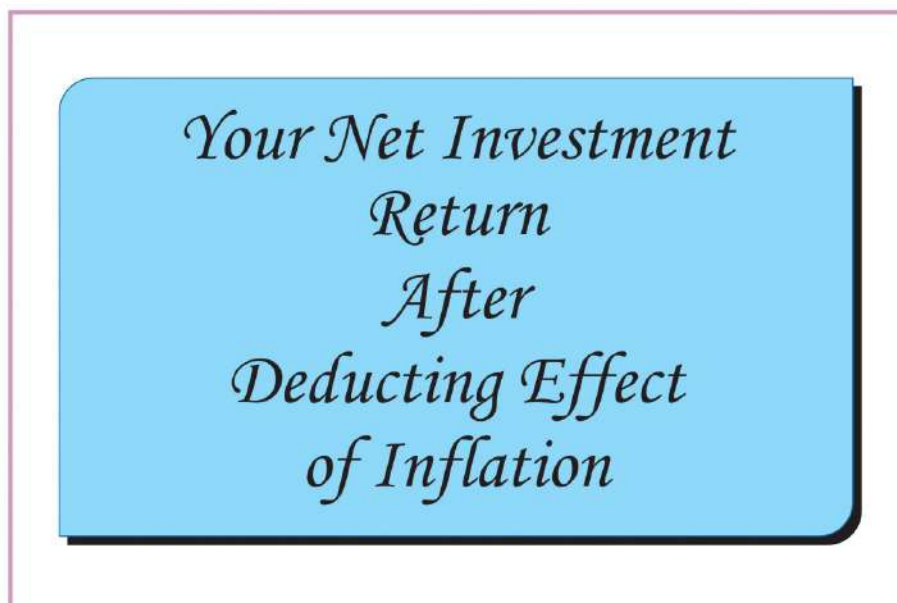
Now we need to establish two very important points here to have a 1 million legacy for your children.

- 1) You need to have a lump sum retirement fund at 55 which covers 24 years of expenses, 24 years i.e., from 55 to 79 years. Taking into account the inflation and retaining the retirement lifestyle.
- 2) You need an additional lump sum at age of 55 to be continuously reinvested to generate a 1 million legacy for your children at the end of twenty-four years when both the husband and wife pass away.

Return rate and inflation effect



The next concept is explained independently so you can just go straight to the Excel sheet and calculation. So another very important point is that the real return rate is also known as the inflation-adjusted rate.



This is your net investment return after deducting the effect of inflation.

$$\text{Real Rate} = \frac{1 + \text{Investment Rate}}{1 + \text{Inflation Rate}} - 1$$

Say if you have an investment rate and the inflation rate, the formula is your net investment return after deducting the effect of inflation.

You can calculate this as one plus your investment rate, divide that with one plus the inflation rate and then subtract one and you will get a real rate, for an example here.

$$\text{Real Rate} = \frac{1 + 6\%}{1 + 3.2\%} - 1$$

2.71%

So assuming after retirement or post-retirement years you invest very conservatively and you expect an investment return of 6 percent per year and the inflation rate stays constant at 3.2 percent. So you calculate it by 1 plus 6 percent and divide that by 1 plus 3.2 percent and then subtract one from that result. This is the Real Rate.