Artemis FINANCIAL ADVISORS

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Do You Know What Your Number Is?

By Kathleen McQuiggan

What's your number? In case your mind jumped to Sex And The City… no, I'm not talking about that type of number. I'm referring to the amount of money you would need to quit your job and still be able to take care of yourself and your family. Recently, I posed this question at a conference I attended and was shocked at the number of people that asked me, "what do you mean?"

As a financial advisor and woman's advocate, I advise a wide range of women on their financial planning needs. After returning from this conference and reflecting on the many discussions I've had with my clients in my advisory practice, I realized that there are actually three numbers, not one. These three numbers are important to identify now so that you can ensure you are adequately funded for your future.

The Three Important Numbers You Need to Know Now

Number 1: How Much Do You Spend?

It's usually not advised to look back, it's all about the present, right? Well, not when it comes to your financial life. Before you can move forward, you need to understand where you stand today and how you got here. The beauty of personal finance is that you have hard data to look at, all of your spending and earnings are easily accessible. And, today, there are several apps and personal finance tools that can help to make this sometimes overwhelming task, less so.

"We can only manage what we measure," Sarah Newcomb, director of behavioral science at fund research firm Morningstar, told Reuters. "If you're not even measuring your own spending, then basically you're just flying blind." By performing a thorough review of your spending, you can better calculate the unknown (how much you'll spend in the coming months and years). You might also be surprised by one thing: The sheer volume of expenses that were totally unplanned and unforeseen.

Number 2: How Much Money Do You Need to Save?

How much money do you need to save every year in order to meet your financial goals? Well, the truth is that it depends. A good rule of thumb is that you should aim to save 15% of your annual income. Of course, when you can save more than 15%, do so! Money is a limited resource, and you won't regret stocking away the extra cash when you need it down the road.

Number 3: How Much Money Will You Need in Retirement?

This one gets a bit more complicated. If you're in your 20's or 30's, I know retirement seems like such a long way off, but creating a plan for retirement now is an important step in investing in your future. If you're in your 40's or 50's, it's especially important to make sure you have a holistic financial plan in place that includes retirement goals and a strategy to get there.

There are many factors to consider when determining how much you will need to live comfortably in retirement. While we can make educated assumptions about some of these factors, such as spending, healthcare costs and investment returns, there are several unknown factors that are difficult to plan for, such as how long we will live and how healthy we will be.

As you consider the factors that you can control, there are two good rules of thumb to follow:

- Assume the safe withdrawal rate is 4% on each one million dollars that you have. So, if you think you will need $120,000 to live off of in retirement in addition to your Social Security, you would need to have $3 million saved.
- Make a goal to save 10X your income by age 67, as recommended by Fidelity Investments.[1]

5 Steps You Can Take to Determine Your 3 Numbers

- **Assess Your Present Financial Picture**. Consider the three numbers we just discussed — spending, savings, and retirement — and write them all down. You can record these numbers on a sticky note on your vision board or in a journal, or simply note them down in Outlook. Putting your numbers down on paper will hold you accountable.
- **Review Your Statements.** Pull copies of all your year-end credit card statements to see exactly what you spent on your cards in 2019. Then, pull your bank account year-end statement and see how much cash you took out (this includes Venmo transactions and bills paid from your bill pay). Add everything up, and then subtract your total spend from your 2019 net income. Was it a positive or negative number? If it was a positive number, ask yourself if that was how much money you saved. If it was a negative number, did you have to dip into your savings, emergency fund or other investment accounts for cash?
- **Set a Goal for 2020.** Assuming you make $X annually, less what you have budgeted for spending this year, commit to saving this amount. If you're starting in your career, the amount might be small. But, try to put aside some money for savings in addition to what you are maxing out on your 401K contributions pretax. If you have both salary and bonus

1 - https://www.fidelity.com/viewpoints/retirement/how-much-do-i-need-to-retire

compensation, try to always put a good portion of your bonus into savings.

- **Develop a Financial Plan.** Consider putting together a financial plan either on your own or with the help of a financial advisor. Unfortunately, only 30% of Americans have a long-term financial plan that includes savings and investment goals.[1] But, getting this plan in place is critical to your financial health and an important first step in building wealth. A financial plan will give you a clear picture of your retirement needs and offer a path to get there. Not to mention, it will give you peace of mind when you are navigating markets and economic conditions like we are facing today.
- **Make a Commitment.** Once you have a clear picture of your spending in relation to your income and your savings/retirement goals, it's time to commit to a plan of action. How will you make sure you are meeting your monthly savings goals? Does it mean cutting out something or setting up auto-withdrawal from your checking to your savings? As you think about the ways that you will hold yourself accountable, also consider rewarding yourself with small incentives on a regular basis, be it monthly or quarterly.

Living in financial ignorance might be easier than taking the time to really understand your financial reality, but, if you want to build wealth, invest in your future, prepare adequately for retirement and protect yourself from unforeseen circumstances that could impact your earnings or savings, it's critical to get a grip on your financial health. The first step is identifying your three numbers. It's time to take back your financial power and take control over your future — not just for yourself but for your loved ones as well.

1- https://www.debt.com/statistics/

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