Retirement Blueprint

EP 30

Can I Retire at 60 With $2 Million? The Questions That Matter More Than the Number

Transcript

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If you're 60 years old and you've got about $2,000,000 saved, you're asking a very reasonable question: Can I retire and stay retired?

The biggest threat to a retirement plan at 60 usually isn't one bad year. It's time. When I work with clients, we typically assume that men will live to be 92 and women will live to be 95. That's not a prediction. It's planning, because retirement plans typically break when you underestimate how long life can be.

So, let's run this like we would a real-life scenario.

The first thing to understand is that $2,000,000 is not the answer. Two people can have $2,000,000 and experience completely different retirements because the real drivers are how much you spend, where the money is held, your exposure to inflation, how you handle healthcare, and even how you react when the markets drop.

When I work with clients, we don't start by asking, "Is $2,000,000 enough?" We start with, "How much do you need your portfolio to reliably produce after taxes, starting right now?" Retirement is not a balance sheet event. It's an income event.

Let's talk about inflation the way it actually behaves. Most people treat inflation like background noise. It's easy to assume it won't matter much, but over time, that assumption quietly does damage.

If we plan for 3% inflation, your costs will roughly double every 24 years. So, if you retire at 60 and you're still alive at 92 or 95, inflation isn't just a footnote. It's a main character.

A simple example would be this: If you need $80,000 per year to live comfortably today, that same lifestyle would cost approximately $114,000 at age 72, $144,000 at age 80, and $206,000 at age 92.

That's why I plan with at least a 3% inflation assumption, even when inflation is calm. Inflation risk is not about one year. It's about its compounding effect.

Here's the part most people miss. Not everything inflates at the same rate. Even if overall inflation averages 3%, your personal inflation rate might be higher.

Why? Because retirees don't buy the average basket of goods. The biggest line items in retirement include healthcare, insurance, home services, travel, and caregiving. Some of these costs, healthcare in particular, tend to rise much faster than general inflation.

If healthcare costs $12,000 a year today, at 3% inflation, that amount would grow to approximately $25,000 over 25 years. At 5% inflation, that same $12,000 would grow to more than $40,000 over 25 years.

This isn't just math on a spreadsheet. If healthcare costs grow faster than the rest of your budget, they can have an outsized impact on your plan.

Now, let's address the portfolio. What does $2,000,000 realistically support?

A common planning starting point is an initial withdrawal rate, something like the 4% rule or a more conservative 3.5%. On $2,000,000, 4% would provide $80,000 a year in cash flow. A 3.5% withdrawal rate would provide $70,000.

Those are pretax numbers if most of your money is held in a traditional 401(k) or IRA rather than a Roth account. Taxes matter. If your effective tax rate in retirement averages, say, 15%, $80,000 becomes approximately $68,000 after taxes. A $70,000 withdrawal becomes approximately $59,500 after taxes.

That's why the account you're taking the money from matters. When I work with clients, we don't just ask, "How much can we withdraw?" We ask, "How much can we withdraw net while keeping taxes stable and healthcare premiums predictable?"

You can afford a withdrawal and still accidentally create higher taxes, higher Medicare premium surcharges in the future, and greater taxation of your Social Security benefits.

Returns matter, but not in the way most people think. Most people focus on returns as if they are a scoreboard. For retirement, however, the real issue is your real return.

Real return equals your nominal return minus inflation. If your portfolio earns, say, 6% and inflation is 3%, your real return is only 3%.

Now, let's connect this with your withdrawals. If you withdraw 4% and your real return averages 3%, you're mathematically drawing money a little faster than your portfolio is growing.

This is why saying "returns matter" is too vague. The real question you should be asking is, "What real returns do you need to support inflation-adjusted withdrawals for 32 to 35 years without running out of money?"

The honest answer is that you don't want to rely on perfect returns. You want to rely on a plan that can survive imperfect returns.

The risk that can disrupt an otherwise good plan is sequence-of-returns risk. This occurs when the market drops early in retirement while you're also withdrawing money. The average return over time can be fine, but if the bad years happen early in retirement, the math starts to change.

Here's a simple illustration. Suppose you retire with $2,000,000 and the market drops 25% in the first year. Your portfolio falls from $2,000,000 to $1.5 million.

Then you withdraw $80,000, leaving you with $1.42 million. Your withdrawal rate is no longer 4%. An $80,000 withdrawal from a $1.42 million portfolio is approximately 5.6%.

That's what most people don't feel coming. The plan doesn't break because you made a bad decision. It breaks because you didn't plan for the order in which the returns occurred.

When I work with clients, we build buffers for this. Not because we're pessimists, but because the early retirement years are fragile.

So, can you retire at 60 with $2,000,000? Yes, many people can if the plan is designed correctly. But $2,000,000 isn't the deciding factor.

First, consider your spending level. If you need $60,000 after taxes, that is very different from needing $120,000. Second, consider your inflation assumptions. Planning for 2% inflation when life delivers 3% might not feel like a major difference, but over 30 years, it can completely change the retirement picture.

Third, consider the reality of healthcare. Healthcare costs often rise faster than general inflation, and they tend to increase as you age, exactly when your financial flexibility may begin to decline.

Fourth, consider your account types and tax strategy. A $2,000,000 plan that is heavily weighted toward Roth assets feels completely different from a $2,000,000 plan held entirely in pretax accounts.

Lastly, consider how you handle the first five to 10 years of retirement. This is where sequence-of-returns risk lives and where many irreversible mistakes can occur.

When I work with clients at 60, we build the plan in layers. We start with the assumption that men will live to be 92 and women may live to be 95. Then we stress-test 3% inflation on general spending, use higher inflation assumptions for healthcare, consider multiple market scenarios during the early years of retirement, and model Social Security timing to reduce pressure on the portfolio later.

We're not trying to predict the future. We're trying to reduce surprises because the goal isn't simply to retire. The goal is to retire and remain comfortable, even when life doesn't cooperate.

If you're 60 and you have $2,000,000, you shouldn't be asking only a rate-of-return question. You should be asking a planning question. That's what real planning looks like.

If you would like help pressure-testing this kind of plan, you can learn more at GDSwealth.com. The goal isn't a confident retirement on paper. It's a retirement that holds up in real life.

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