Why 2 Million Dollars Might Make You Miserable

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As I get deeper and deeper delving into the financial picture of clients, the psychology behind how people think about retirement is truly fascinating. I've said before in national magazines that we should really "retire" the word retirement as it doesn't mean much anymore with the changing landscape of work, family and the economy. In fact, there was a recent study done in the USA Today that suggested 68% of the individuals working today said they would continue to work into retirement.

It's been discussed overtly in the media that we should all concentrate on a philosophy of "what's my number" when it comes to planning your grand exit to make work optional down the road. This financial planning notion centers on the concept of figuring out how much money you will essentially need in the bank at the day you stop working to continue to provide you with enough income for the rest of your life. It's the number you need so you will never run out of money.

I am convinced at this point that this type of planning is severely flawed. If you plan out the number you need in the bank for retirement and actually hit it, you will have put yourself in a corner that may well lead you to eventually become quasi paranoid as you age through retirement.

The answer we should be searching for is "what's my paycheck" and not "what's my number" where I take a very different fork in the road. Think about this for a minute. You work really hard and begin to earn more and more income as you grow your career. You actually have a modicum of success and save the maximum in your 401(k) plan, take the company match and get showered with stock options for twenty to thirty years. You invest your money wisely and achieve a reasonable rate of return on it.

Your financial advisor runs a detailed analysis and now you have a goal of $2,000,000. He tells you upon hitting that $2,000,000 that you will never run out of money if you use a certain withdrawal rate, earn a certain interest rate and the variable assumptions like inflation and tax rates stay in line.

What's wrong with this picture? The item that nobody discusses is that by achieving this level of success, you are virtually guaranteed to spend down your money. So what happens psychologically is that in the first few years of retirement you hit a sensation of jubilation. You might actually spend more money than you would in earlier years just to live out some of your "to-do bucket list."

After you come down to planet Earth from your couple or three years of travel and vacations, you start to withdraw money at the reasonable spend down rate. The problem is that when people spend their lives building up a capital base, emotionally it makes them sick to their stomachs to see the balances of their investment accounts go down.

intellectually they understand that this money was built up for this very purpose, it is impossible for them to sit idly and watch the capital base dissipate that they spent their whole lives building up. This is why you'll often hear that people who have a lot of money are some of the cheapest people in the world. The reason is a massive fear of this treasured money slipping out of their hands.

So what do most of the retirees do when this phenomenon starts to hit them when the statements come in the mail? You got it, they begin to shrink down their lifestyle to the point that the investment account balances won't go down. This is actually counterintuitive to what should be happening.

You have built up this capital base so you can enjoy your golden years doing anything you want to do. Instead, many people become frantically miserable thinking every single month that they are going to run out of money. Who would have thought that the success of hitting "what's my number" could actually be devastating within a few years after you have opted to retire?

This is why for those of you who are planning for retirement should understand that the discussion should be around "what's my paycheck" and not "what's my number." The happiest people in retirement who I have seen throughout my career are teachers, government workers and clients who receive steady pensions from their former employers.

These people don't think emotionally as much about the market, the economy or the government around their futures. All they know is that a check comes in the mail each month. This means as you plan your family finances, you should have a really strong consideration on what percentage of your assets that you set up to give you a real pension-like paycheck every month. There are many such products that can solve this part of the equation and you should ask your financial advisor about how these types of instruments work within the framework of your comprehensive retirement plan.

If I asked you today this question, "If you had 2 million or even 3 million dollars in the bank when you retire, do you think you would be happy?" Most of you would unequivocally say yes, but 10 years into retirement you would discover that your emotions would take over and you would be fretting about your capital base every single day.

Think about the new notion of retirement being about a paycheck and not just a lump sum. If you knew the check was in the mail each and every month, how much could you have and not worry about the daily ups and downs of the market? Isn't time you figured out what your paycheck should be in retirement?

Ted Jenkin is a frequent guest columnist for *The Wall Street Journal*.