

The Number

Introduction

So, how much money do you need? Really?

It's such a simple question that you've probably already dismissed it. So let's try again. How much would you have to win in the lottery to never worry about money again? Write that number down on a piece of paper and keep it near you.

If you are like most people, you will have a strange resistance to writing down "The Number." Isn't that odd, given how much time, energy, and angst most of us spend worrying about financial success and security? In other words, you wouldn't recognize financial success if you reached it.

And, more than likely, once you did accumulate all the wealth you thought you needed, you'd want more. Because there's always a bigger house, a more expensive car, or a larger airplane.

Then, one day, you'd wake up in a luxury that once was reserved for kings and emperors and ask, "Is this all there is?"

Have the courage to complete this exercise and come up with "The Number" for you so that you do recognize success. It just might save your life.

How much would you need to never worry about money again?

"The Number" is the amount of cash you need in the bank to live the life you want without any financial worries.

Finding your number is one of the toughest assignments at Acton. Not because it's mathematically challenging. We will help you simplify the calculation. No, finding "The Number" is hard because it forces you to come to grips with what money means to you personally and that task is much more difficult than it seems.

Finding "The Number"

Start by estimating your monthly expenses. If you already have an established career and home life, today's expenses will suffice. If not, you might want to imagine what your life will be like once you've achieved those things.

Be sure to include everything, i.e. mortgage or rent, insurance, utilities, food, etc. And don't forget to add in money for vacations, leisure activities, and clothes. If you aren't married but plan to have a non-working spouse, you'll need to adjust for this. If you plan to have children, add these costs, too. According to the latest data from the US Department of Agriculture, a family can expect to spend an average of \$181,000 to raise a child until the age of 18—that's an extra \$10,000 or so per year, per child. You don't need to obsess over every number, but do take the time to consider all of your major expenses.

Finished? Now add twenty percent for all the things you left off.

Once you have your monthly expenses, multiply by 12 to determine how much you would need annually to get by.

$$\text{Monthly Expenses} \times 12 = \text{Annual Expenses}$$

But don't forget one of life's certainties: taxes. Tax rates vary, but let's assume you'll be in one of the higher tax brackets and that 50% of what you make will go to some form of state and local taxes. So take your annual expenses and multiply by two to get the gross pay you'll need to support your lifestyle.

$$\text{Annual Expenses} \times 2 = \text{Gross Pay}$$

Now you'll determine how much interest you'll earn on your investments. In our simplified calculations, we aren't taking into account inflation, so we'll use real interest rates¹ to calculate investment income. If you think you are Warren Buffet, you can use a 6% real rate of return on your passive investments. If you think you are a mere mortal, use 3%. If you are more conservative, use 2%.

Now take 1, divide it by your real interest rate, and then multiply by your gross pay. For example, if you use the 2% real interest rate, you would multiply your gross pay by 50. (If 3%, multiply by 33 and if 6%, multiply by 16, etc.) This will determine "The Number"—how much money you'd need to have invested to pay all your bills.

$$(1 \div \text{Real Interest Rate}) \times \text{Gross Pay} = \text{"The Number"}$$

So what is "The Number" for you? Write it down next to your earlier prediction. How close were you?

We've been conservative in our calculations because we've never dipped into the principal you set aside, leaving you plenty of money at the end of your life to leave your children or to use for charity work. But if you feel you'll need more, go back and recalculate. Do not finish until you have "The Number" that you believe is right for you.

¹ The "real interest rate" is the current interest rate minus the current inflation rate.

What “The Number” means for you

Now that you know “The Number,” how does it feel? Does it seem like not enough? Are you afraid you might need a bigger house? More vacations?

Or were you surprised by how high “The Number” was? Wondering if you really need that big house? And all those luxuries?

Whether it was more or less than what you expected, did you feel at all uncomfortable while calculating it? Anxious? Relieved? Embarrassed?

All of those reactions are normal. And expected. The power of this exercise is that it forces you to confront your relationship with money. What importance does it have in your life? And in your definition of success? How have you allowed it to influence your sense of self-worth?

Once you’ve acknowledged this relationship, you can begin to shape it. Which of your feelings toward money do you embrace? Which do you want to change? What importance would you like money to have in your life?

And perhaps most importantly, you now have a goal—a lump sum of wealth that signifies the end of the Rat Race. What will you do with your life once you hit “The Number?” Are those longings more important than houses, cars, and airplanes?

Take time to honestly and sincerely reflect on each question (and be sure to record those reflections).

Summary

Many of us have a drive for success. We want lots of it and more. We just don’t know where this drive for more is taking us. When will more be enough? “The Number” helps quantify those longings in a way that makes them concrete, tangible, and less emotional. It places a finite end to the Rat Race.

But, more than likely, it also creates more questions. About priorities, goals, and dreams. About how you view money and the role it plays in your life.

Now you know your own “Number.” Whether or not it’s really enough is something only you can answer.