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Part 4: When is Enough, Enough?

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While the definition of financial independence varies among Americans, most will agree that it should impart a sense of freedom and flexibility, and will reward those who achieve it with peace of mind. According to the recently-released Allianz "Women, Money and Power" study, financial security and freedom are 15 to 20 times more important to women than money-related status or respect. We women are less interested in keeping up with the Joneses and more concerned about running out of money.

Achieving financial independence is closely related to a certain level of liquid net worth — a number. This number represents the amount of money you need to feel secure for the rest of your life. Arriving at this number through a process of quick guesstimates or informal conversations with friends might be a good starting point — but it warrants additional work.

Start by determining your income needs once you retire. A rule of thumb has been to assume you will need 70 to 80 percent of your pre-retirement income to live comfortably. For many, however, retirement does not mean spending less. It simply means changing some of the spending patterns. Take a look at your current expenses, subtract those you will no longer have when you retire (mortgage payment, college tuition) and add new expenses such as travel and medical. Given that you might be retired for 30 years or longer, the effects of inflation play a significant role in this analysis.

Once you have estimated your retirement expenses, list your future income sources: social security, pensions, investment income, alimony, etc. Determine which ones will keep pace with inflation and which ones are fixed. Comparing income and expenses during your retirement years will reveal any gaps in cash flow.

Generally speaking, your liquid net worth should generate enough income to cover this gap. It should also provide the liquidity to achieve your other financial goals — such as leaving a financial legacy to your loved ones or funding your philanthropic wishes. Proper diversification in the way your liquid net worth is invested is very important since it will minimize risk and reduce volatility.

When it comes to money, what women want is fewer worries and more security. We are more inclined to embrace and enjoy a predictable future than one filled with surprises. We strive to achieve the ultimate reward of fiscal fitness: peace of mind. And when this happens, we know it is enough.

Next week: Living the "New" Rest of Your Life.

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