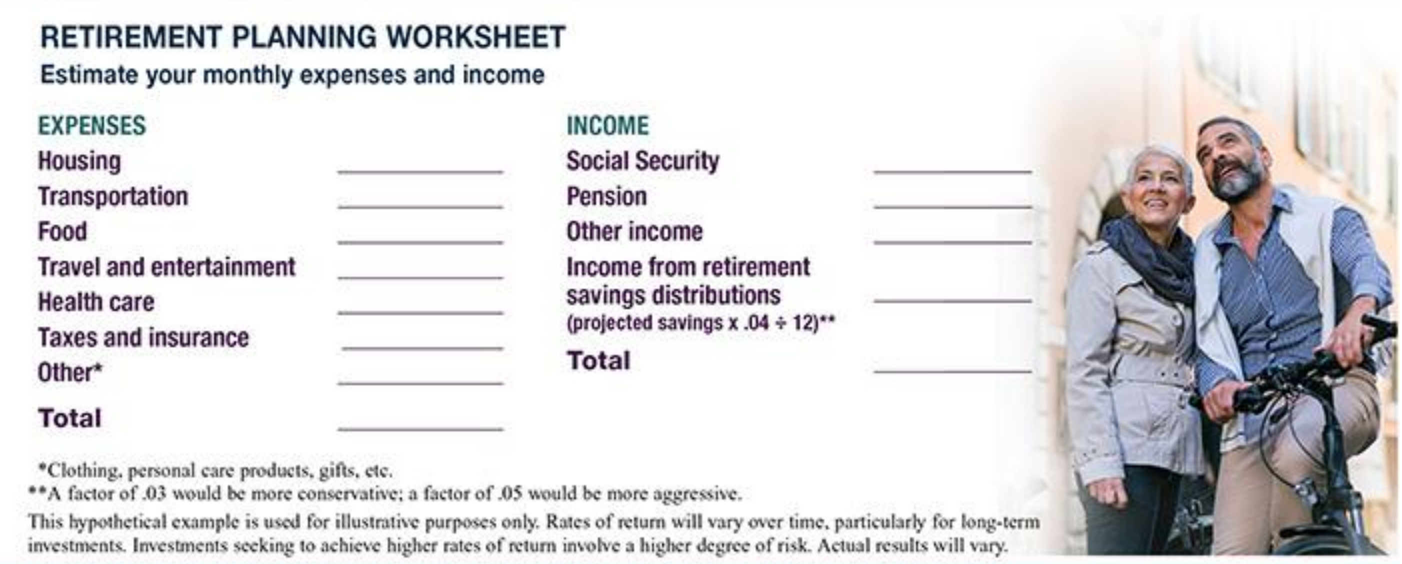
Getting Real About Retirement

Preparing for retirement can be daunting, but like any challenge it helps to take a hard look at some real data. Yet only 29% of workers or their spouses have tried to estimate their retirement expenses, and only 33% have estimated the monthly retirement income they would need.[1]

For younger people, this may be understandable. It's difficult to estimate expenses and income when retirement is a distant goal. But as retirement draws closer, the picture should become clearer, and the need for realistic planning becomes essential. You might benefit from professional advice and a more thorough cash-flow analysis, but you can start with the worksheet on this page.



RETIREMENT PLANNING WORKSHEET
Estimate your monthly expenses and income

EXPENSES		INCOME	
Housing	______	Social Security	______
Transportation	______	Pension	______
Food	______	Other income	______
Travel and entertainment	______	Income from retirement savings distributions (projected savings x .04 ÷ 12)**	______
Health care	______	**Total**	______
Taxes and insurance	______		
Other*	______		
Total	______		

*Clothing, personal care products, gifts, etc.
**A factor of .03 would be more conservative; a factor of .05 would be more aggressive.
This hypothetical example is used for illustrative purposes only. Rates of return will vary over time, particularly for long-term investments. Investments seeking to achieve higher rates of return involve a higher degree of risk. Actual results will vary.

Begin with Expenses

One common guideline is that you will need 70% to 80% of your pre-retirement income to meet your retirement expenses. This assumes that you have paid off your mortgage, will have lower transportation and clothing expenses when you stop working, and will no longer be contributing to a retirement savings plan. Everyone's situation is different, but these might be helpful starting points.

If your income is lower, your federal and state income taxes may be lower as well. But don't forget that federal income taxes apply to pension payments, distributions from traditional IRAs and most retirement plans, and a percentage of Social Security benefits (depending on income). State tax rules vary. Property taxes, homeowners insurance, auto insurance, and other taxes and insurance will also add to the total.

Although some expenses may be lower, others might increase, depending on your retirement lifestyle. Perhaps you want to travel more or engage in new activities.

Medical expenses may increase as you grow older, even with Medicare. A recent study suggests that an average 65-year-old couple who retired in 2018 would need $280,000 to cover Medicare premiums and out-of-pocket health-care expenses (not including long-term care), based on a life expectancy of 87 for a man and 89 for a woman. This would require an average expenditure for the couple of about $12,000 annually or $1,000 per month.[2] Health-care expenses vary widely, but you might use this figure and adjust based on your medical needs. For a more personalized estimate, see the AARP Health Care Costs calculator at ***aarp.org/retirement/the-aarp-healthcare-costs-calculator***.

Estimate Income

You can estimate your monthly Social Security benefit at ***ssa.gov/retire/estimator.html***. Keep in mind that the longer you wait to claim your benefits, from age 62 up to age 70, the higher your monthly benefit will be. If you expect a pension from current or previous employment, you should be able to obtain an estimate from the employer.
Add other sources of income, such as consulting or a part-time job, if that is in your plans. Be realistic. Consulting can be lucrative, but part-time work often pays low wages, and working in retirement is less likely than you might expect. In 2018, 79% of workers said they expected to work for pay after retirement, but only 34% of retirees said they had actually done so.[3]

It's more difficult to estimate the income you can expect from your savings, which may depend on unpredictable market returns and the length of time you need your savings to last. First, project the total savings you will have accrued by the time you retire. Then you might calculate income based on withdrawing 4% of your savings each year, a simple version of the "4% rule." Some experts believe that a 4% withdrawal rate may be too high to maintain funds over a long retirement, so a 3% or 3.5% rate might provide a more sustainable estimate.

A Question of Balance

If your projected income is not sufficient to meet your projected expenses, don't despair. You might be able to reduce expenses, increase your savings contributions, work longer, or all three. Even if the numbers look good, it would be wise to keep building your savings to prepare for unexpected expenses and provide more flexibility in your retirement lifestyle.

A rough estimate of your retirement balance sheet is a good beginning, and a professional assessment may be the next step. Although there is no assurance that working with a financial advisor will improve investment results, a professional who focuses on your overall objectives and available resources can help you consider strategies that could have a substantial effect on your long-term financial situation.

1, 3) Employee Benefit Research Institute, 2018
2) *Money*, April 19, 2018