Estimating Retirement Income Needs

Life is full of unanswerable questions, like knowing exactly how much you will need to live comfortably during retirement. Although this number can be difficult to determine, the following article highlights some useful strategies and tools to get you a step closer to finding a dollar amount that will help you feel confident in your retirement plan.

Retirement Age

The first step to estimating a viable retirement income is determining your desired retirement age. Medicare is available to you when you reach age 65, but you are eligible for early Social Security benefits at age 62. Those who retire at age 62 will receive Social Security benefits with a reduction from the full amount that they would receive if they waited until their "full retirement age," which ranges from age 65-67. You can find your full retirement age and early retirement benefit reduction, which are both dependent on your birthdate, at www.ssa.gov. In general, the longer you wait to retire, the larger your Social Security benefits will be, up until age 70. If you have the desire and the ability to work until age 70, your Social Security benefits will be significantly larger than if you chose to retire at age 62. Similarly, your company's retirement plan may have specific early, normal and deferred retirement ages to be aware of.

You might have a specific age in mind and plans for what you'd like to do when you do retire. That's great—as long as you'll have sufficient funds to live the life you've been picturing. Those with a desire to travel, start their own business or spend more time on their favorite hobbies may want to retire earlier. Others may want to delay their retirement as long as possible because they enjoy their work. Similarly, some choose semi-retirement and take a step back from their careers to work part-time. Keep in mind that your goals and health

Expenses that tend to increase or remain the same in retirement:

- Utilities and telephone
- Health care costs
- Housing costs (upkeep, repairs, maintenance, property insurance, etc.)
- Recreation

Expenses that tend to decrease in retirement:

- Mortgage payments
- Food
- Clothing
- Income taxes
- Transportation costs (maintenance, gas, insurance, etc.)
- Debt repayments
- Work-related expenses
- Child care costs
- Retirement savings

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may change as you get closer to retirement, so it's important to adjust your planning accordingly.

Lifestyle Goals and Familial Responsibilities

Whether you plan to shave strokes off your golf game, rack up the mileage on your personal odometer by traveling or simply maintain your current lifestyle, your retirement plans will alter the amount of money you will need. Similarly, it may be beneficial to take your family's financial situation into account. By the time you retire, chances are your dependents will be off on their own, supporting themselves financially. However, it is not uncommon for retirees to want to help their children with mortgages on their homes or grandchildren with their college tuition. In other situations, retirees may be in a position where they need to continue to financially support disabled dependents. Each individual's goals and obligations may vary, but taking them into account when planning for retirement is crucial.

Life Expectancy

Like planning for retirement, life expectancy is never certain. Life expectancy rates are only an estimate, but they can be useful when planning for retirement. While it is positive news that life expectancy rates continue to rise, this may have a negative effect on your retirement funds—living up to or even past life expectancy may mean outliving your retirement funds. In addition, since life expectancy rates are rising, the average life expectancy may be even higher by the time you retire than it is today. Take increasing life expectancy rates and personal and family health history into account when planning for retirement.

The Replacement Ratio Method

For those who wish to maintain their current standard of living, the replacement ratio method can be a useful strategy when drawing up your retirement blueprint. In general, this method suggests taking between 60 and 80 percent of the average of your assumed salary of the three years prior to retirement. The replacement ratio method is typically supported by the assumption of common changes in your financial routine and situation. For example, the fact that you will no longer be working also means that many employment-related expenses—such as the costs of commuting, parking, proper clothing and even food for work—will decrease when you retire. In addition, retirement brings important changes to your taxes, such as the halt in Social Security taxes, plus typical increases in medical expenses and typical decreases in debt, vehicle and homeownership expenses.

The Expense Method

The expense method focuses primarily on the typical increases and decreases of common expenses. For example, expenses that tend to increase or remain the same in retirement are utility bills, medical expenses, recreational activities and house and vehicle maintenance. On the other hand, expenses that tend to decrease in retirement are mortgage payments, income and property taxes, transportation costs, debt repayments and household furnishings. The use of the expense method varies by an individual's financial situation, goals and obligations. The expense method will require you to spend some time considering the many potential changes to your expense patterns upon retirement—but when it comes to feeling confident about your future financial security, every second is worth it.