

# Retirement Planning

► Learn to plan for your retirement by setting goals, estimating how long retirement will last, estimating income needs and expenses, and calculating net worth are all tools in planning a successful retirement.

Financial planning, the basis of retirement planning, can provide more satisfaction and security in your retirement years. Many people avoid thinking seriously about retirement until it is only a few years away. Yet starting to make and implement plans for retirement as early as possible—as soon as you enter the workforce—is preferable.

Early preretirement planning allows a sense of control over the changes retirement may bring. With early planning, you have more room for flexibility. Changes in economics, family structure, etc., are inevitable. Reviewing plans periodically can help you adjust to changes in circumstances. Following are actions you can take to help during retirement.

## Set Goals

The first action necessary in financial planning is to determine what is important to the individual and family members. Setting goals gives purpose to actions 10, 20, or 30 years from now. A good starting place is to create a paper or computer list of your goals during retirement.

**The list might look something like this:**

- Retire at age 67
- Move to a different location
- Sell present home
- Purchase a condominium or town house
- Remain financially independent
- Travel extensively
- Maintain present lifestyle
- Continue to be employed part time
- Develop special hobbies and interests (identify them)
- Provide protection from catastrophic medical expenses



- Provide financial support for my spouse after one's death
- Leave substantial assets to one's children, family, or a charity
- Maintain membership in civic, social, and religious groups and organizations

In considering each goal, try to assess its financial cost. If anticipated income is less than anticipated expenses, prioritize the most important goals to accomplish and postpone others until later. Hold on to the list and use it as a management tool.

## Estimate How Long Retirement Will Last

Each individual and spouse (if applicable) must decide at what age retirement will begin. Next, estimate life expectancy. Many people use 80 as an average life expectancy. Keep in mind that many people live much longer than the average. Many don't realize that retirement could be as long as 25 to 30 years. Consider the longevity of family members, especially the age of one's parents. By staying in good health and keeping physically fit, life expectancy is longer than the average.

Retirement planning involves planning for the many years after retirement. Keep this in mind when thinking about finances and other elements of the retirement plan.

## Estimate Income Needs

The amount of money needed for retirement living expenses depends on lifestyle and retirement goals. A rule of thumb is to plan for an annual retirement income of 70 to 80 percent of preretirement earnings or 60 percent if there is no mortgage or outstanding debt. Depending on income level, it is possible to maintain a constant standard of living with 50 to 80 percent of preretirement income. This is possible because taxes, work-related expenses, and savings commitments reduce in retirement.

Some financial planners recommend striving for a 100 percent replacement of preretirement income to maintain current lifestyle. If you don't have much retirement income, make special efforts to reduce living expenses.

## Consider Changes in Expenses

Some expenses in retirement will be lower than those expenses were before retirement. Others will stay nearly the same. Housing expenses depend on whether you have a mortgage payment or if there is a residence change that will require a mortgage. You might consider a reverse mortgage to supplement retirement income.

Work-related expenses are likely to decrease. Some of these expenses include transportation costs, license fees, meals away from home, gifts for coworkers, clothing, and so on. Also, there are no contributions made to a retirement plan. Payout for life insurance coverage is generally reduced by at least 50 percent or even eliminated if a spouse is fully provided for under a pension plan.

Some expenses may continue at their preretirement levels. Food, utilities, gifts, contributions, auto liability, and property insurance expenses will probably stay constant.

Some expenses will increase during retirement. Health expenses are the most likely to increase. Expenditures for leisure, entertainment, recreation, and transportation may also take a larger share of budgets, depending on retirement goals. The amount of money spent on food, clothing, housing, recreation, transportation, and other expenses should reflect the values and meet the goals of your retirement plan.

## Calculate future expenditures using the following method:

1. Determine current expenses (use checking account records and charge receipts if there is no written record of expenses).
2. Estimate expenditures in retirement based on today's prices.
3. Record the calculations on worksheets 1 and 2.

Worksheet 1, "Estimated Monthly Living Expenses," can help you calculate monthly expenses. The first column on Worksheet 2, "Estimated Annual Living Expenses in Retirement," provides a summary of expected retirement annual expenses.

## Consider the Inflation Factor

The expenses calculated for retirement on worksheets 1 and 2 are figured at today's prices. Unfortunately, a dollar today may not be worth as much during retirement in 10 or 20 years. Loss of buying power due to inflation is what makes planning so important. To accurately estimate income needs at retirement, you must predict what inflation will be, which may be difficult. Estimate the number of years before retirement begins. Use table 1 and the following steps to estimate the effect inflation will have on income needs.

**Step 1:** Choose from the left column the number of years until retirement starts (subtract your current age from your age at the start of retirement).

**Step 2:** Choose an assumed rate of inflation. Keep in mind that it varies from year to year.

**Step 3:** Find the inflation and factor corresponding to the assumed rate of inflation and number of years to retirement. (Example: 20 years to retirement and 5 percent inflation gives a factor of 2.71.)

**Step 4:** Multiply the estimated total retirement expenses (worksheet 2) by the inflation factor to get the inflated retirement expenses. (Example:  $\$28,000 \times 2.71 = \$75,880$ .) That means living costs would be about 265 percent higher during retirement than they are currently. Enter different inflation factors for different categories on worksheet 2. For example, medical prices may continue to rise more rapidly than food prices. Using worksheet 2, estimate future expenses by multiplying today's dollar figures (column 1) by the inflation factors (column 2) and filling in column 3. With time, you can plan for a level of retirement income that will keep up with or stay ahead of inflation.

## Calculating Net Worth

As retirement approaches, it is important to know your net worth, which is the difference between what you own and what you owe. Use worksheet 3 to determine your financial strength. Review your overall situation annually.

### Calculate Assets

- Ask a real estate agent to estimate the value of your home. Do not use the purchase price.
- Check a used car price guide for vehicle values.
- Make a conservative estimate of the value of household items.
- Use the appraised value for antiques and art.
- Check newspapers and the Internet for the market value of stocks and mutual funds.
- Check insurance policies to find the cash surrender value of whole or straight life insurance policies.
- Use the current value of pensions as the anticipated amount if retirement began today.

### Calculate Debts

- Use the mortgage balance that appears on monthly statements. If none appears, ask the lender for an amortization schedule of the mortgage.
- List the balance due on all charge accounts, installment accounts, and loans.
- Under current bills, include any doctor's bills, current month's water bill, phone charges, etc.

### Subtract Total Assets from Total Debts

The difference in the two numbers is the figure to use for net worth and an idea of the nest egg that has been saved. The next step is to determine sources of income expected during retirement. Sources of future income are calculated by taking all anticipated sources of retirement income, including Social Security and pensions or retirement accounts, and then estimating monthly amounts to be received based on life expectancy.

It is never too late to begin saving for retirement. Take advantage of pretax retirement accounts offered by employers, or check with an accountant for available plans for business owners.

**Table 1. The Inflation Factor: Average Annual Rate of Inflation**

Years until Retirement	Annual Inflation Rate (%)				
	3%	5%	7%	9%	11%
5 years	1.16	1.28	1.42	1.57	1.65
10 years	1.35	1.65	2.01	2.45	2.71
15 years	1.57	2.11	2.85	3.84	4.45
20 years	1.82	2.71	4.04	6.01	7.33
25 years	2.12	3.48	5.73	9.41	12.06
30 years	2.46	4.47	10.94	14.73	19.84
35 years	3.32	7.36	24.27	36.11	53.70

## Worksheet 1: Estimated Monthly Living Expenses

Expense Category	Current Cost	Retirement Cost
<b>Housing</b>		
Rent/mortgage payments	\$	\$
Real estate taxes		
<b>Household operation and maintenance</b>		
Home repair, lawn care		
Water, electric, gas, fuel, oil		
Telephone		
TV service		
Waste disposal, other		
<b>Home improvement and upkeep</b>		
Furniture and fixtures		
Floor coverings		
Kitchen equipment		
Garden, lawn equipment, supplies		
<b>Automobile and transportation</b>		
Car payment		
Repairs		
Gas, oil		
License, registration		
Insurance		
Other transportation		
<b>Food</b>		
Food at home		
Food away from home		
Entertainment		
<b>Clothing</b>		
New clothing		
Dry cleaning		
<b>Personal</b>		
Cosmetics and toiletries		
Hair stylist expenses		
Stationery, postage		
<b>Medical and health</b>		
Medicine and prescription drugs		
Doctor and dentist visits		
Eyeglasses, hearing aids		
Health insurance		

**Worksheet 1: Estimated Monthly Living Expenses (Continued)**

Expense Category	Current Cost	Retirement Cost
<b>Entertainment, education</b>		
Movies, sporting events, concerts	\$	\$
Vacations, celebrations		
Adult continuing education		
Pets: care, food, vet visits		
Contributions		
Gifts		
Other		
<b>Taxes, debt repayment, insurance</b>		
Federal and state income taxes		
Local taxes		
Social Security		
Credit cards and due bills		
Life insurance		
Property insurance (not homeowner's)		
<b>Savings, investments</b>		
Banks, savings and loan		
Company pension, profit-sharing plan		
Stocks, bonds, real estate		
Retirement: Keogh, IRA, SEP		
<b>Miscellaneous expenses</b>		
Domestic help, day care		
Alimony, child support		
Professional and business expenses		
<b>TOTAL:</b>		

## Worksheet 2: Estimated Annual Living Expenses in Retirement

Multiply by 12 the total cost for each category in worksheet 1 to estimate your annual living expenses in retirement. Enter these amounts in column 1.

	(1) Estimated Annual Living Expenses in Today's Dollars	(2) Inflation Factor	(3) Adjusted Annual Expenses
Housing	\$		\$
Household operation and maintenance			
Home improvement			
Transportation			
Food			
Clothing			
Personal			
Medical and health			
Recreation, education			
Taxes, debt payment, insurance			
Savings, investments			
Miscellaneous expenses			
Future irregular expenses (new roof, new heater, etc.)			
<b>TOTAL:</b>			

**Worksheet 3: Personal Financial Statement (Net Worth)**

	Self	Spouse	With Spouse
<b>Assets—What we own</b>			
<b>Cash</b>	\$	\$	
Cash on hand			
Checking accounts			
Savings accounts			
Certificates of deposit			
<b>Investments</b>			
Government bonds and instruments			
Mutual funds			
Bonds—corporate/municipal			
Stocks			
Affiliated business interests			
<b>Life insurance and annuities</b>			
Cash value, accumulated dividends			
Annuities			
Vested retirement fund benefits			
Accrued pension or retirement benefit			
<b>Real estate</b>			
Home (current market value)			
Other real estate			
<b>Property</b>			
Household furnishings			
Jewelry and rugs			
Art and antiques			
Vehicles			
Other valuables			
<b>Other</b>			
Notes receivable to you			
<b>TOTAL ASSETS:</b>			

### Worksheet 3: Personal Financial Statement (Net Worth) (Continued)

	Self	Spouse	With Spouse
<b>Liabilities – What we owe</b>			
<b>Unpaid bills</b>	\$	\$	\$
Charge accounts			
Credit card accounts			
Taxes			
Insurance premiums			
Other			
<b>Real estate mortgage</b>			
Total amount owed			
<b>TOTAL LIABILITIES:</b>			
<b>SUMMARY:</b>			
Assets			
Liabilities			
<b>NET WORTH:</b>			



Revised by **Rick Zapata**, *Human Sciences Regional Extension Agent*, Auburn University. Originally written by **Ruth Brock**, former *Regional Extension Agent*.

**For more information**, contact your county Extension office. Visit [www.aces.edu/directory](http://www.aces.edu/directory).

Trade and brand names used in this publication are given for information purposes only. No guarantee, endorsement, or discrimination among comparable products is intended or implied by the Alabama Cooperative Extension System.

The Alabama Cooperative Extension System (Alabama A&M University and Auburn University) is an equal opportunity educator and employer. Everyone is welcome! Please let us know if you have accessibility needs.

Revised July 2021, FCS-2155

© 2021 by the Alabama Cooperative Extension System. All rights reserved.

[www.aces.edu](http://www.aces.edu)