

# Estimating Your Retirement Income Needs

You know how important it is to plan for your retirement, but where do you begin? One of your first steps should be to estimate how much income you'll need to fund your retirement. That's not as easy as it sounds, because retirement planning is not an exact science. Your specific needs depend on your goals and many other factors.

## Use Your Current Income as a Starting Point

It's common to discuss desired annual retirement income as a percentage of your current income. Depending on who you're talking to, that percentage could be anywhere from 60 to 90 percent, or even more. The appeal of this approach lies in its simplicity, and the fact that there's a fairly common-sense analysis underlying it: Your current income sustains your present lifestyle, so taking that income and reducing it by a specific percentage to reflect the fact that there will be certain expenses you'll no longer be liable for (e.g., payroll taxes) will, theoretically, allow you to sustain your current lifestyle.

The problem with this approach is that it doesn't account for your specific situation. If you intend to travel extensively in retirement, for example, you might easily need 100 percent (or more) of your current income to get by. It's fine to use a percentage of your current income as a benchmark, but it's worth going through all of your current expenses in detail, and really thinking about how those expenses will change over time as you transition into retirement.

## Project Your Retirement Expenses

Your annual income during retirement should be enough (or more than enough) to meet your retirement expenses. That's why estimating those expenses is a big piece of the retirement planning puzzle. But you may have a hard time identifying all of your expenses and projecting how much you'll be spending in each area, especially if retirement is still far off. To help you get started, here are some common retirement expenses:

- Food and clothing
- Housing: Rent or mortgage payments, property taxes, homeowners insurance, property upkeep and repairs
- Utilities: Gas, electric, water, telephone, cable TV
- Transportation: Car payments, auto insurance, gas, maintenance and repairs, public transportation
- Insurance: Medical, dental, life, disability, long-term care
- Health-care costs not covered by insurance: Deductibles, co-payments, prescription drugs
- Taxes: Federal and state income tax, capital gains tax
- Debts: Personal loans, business loans, credit card payments
- Education: Children's or grandchildren's college expenses
- Gifts: Charitable and personal
- Savings and investments: Contributions to IRAs, annuities, and other investment accounts
- Recreation: Travel, dining out, hobbies, leisure activities
- Care for yourself, your parents, or others: Costs for a nursing home, home health aide, or other type of assisted living
- Miscellaneous: Personal grooming, pets, club memberships

Don't forget that the cost of living will go up over time. The average annual rate of inflation over the past 20 years has been approximately 2.2 percent. (Source: Consumer price index (CPI-U) data published by the U.S. Department of Labor, January 2016.) And keep in mind that your retirement expenses may change from year to year. For example, you may pay off your home mortgage or your children's education early in retirement. Other expenses, such as health care and insurance, may increase as you age. To protect against these variables, build a comfortable cushion into your estimates (it's always best to be conservative). Finally, have a financial professional help you with your estimates to make sure they're as accurate and realistic as possible.

## Decide When You'll Retire

To determine your total retirement needs, you can't just estimate how much annual income you need. You also have to estimate how long you'll be retired. Why? The longer your retirement, the more years of income you'll need to fund it. The length of your retirement will depend partly on when you plan to retire. This important decision typically revolves around your personal goals and financial situation. For example, you may see yourself retiring at 50 to get the most out of your retirement. Maybe a booming stock market or a generous early retirement package will make that possible. Although it's great to have the flexibility

to choose when you'll retire, it's important to remember that retiring at 50 will end up costing you a lot more than retiring at 65.

## Estimate Your Life Expectancy

The age at which you retire isn't the only factor that determines how long you'll be retired. The other important factor is your lifespan. We all hope to live to an old age, but a longer life means that you'll have even more years of retirement to fund. You may even run the risk of outliving your savings and other income sources. To guard against that risk, you'll need to estimate your life expectancy. You can use government statistics, life insurance tables, or a life expectancy calculator to get a reasonable estimate of how long you'll live. Experts base these estimates on your age, gender, race, health, lifestyle, occupation, and family history. But remember, these are just estimates. There's no way to predict how long you'll actually live, but with life expectancies on the rise, it's probably best to assume you'll live longer than you expect.

## Identify Your Sources of Retirement Income

Once you have an idea of your retirement income needs, your next step is to assess how prepared you are to meet those needs. In other words, what sources of retirement income will be available to you? Your employer may offer a traditional pension that will pay you monthly benefits. In addition, you can likely count on Social Security to provide a portion of your retirement income. To get an estimate of your Social Security benefits, visit the Social Security Administration website ([www.ssa.gov](http://www.ssa.gov)). Additional sources of retirement income may include a 401(k) or other retirement plan, IRAs, annuities, and other investments. The amount of income you receive from those sources will depend on the amount you invest, the rate of investment return, and other factors. Finally, if you plan to work during retirement, your job earnings will be another source of income.

## Make up Any Income Shortfall

If you're lucky, your expected income sources will be more than enough to fund even a lengthy retirement. But what if it looks like you'll come up short? Don't panic--there are probably steps that you can take to bridge the gap. A financial professional can help you figure out the best ways to do that, but here are a few suggestions:

- Try to cut current expenses so you'll have more money to save for retirement
- Shift your assets to investments that have the potential to substantially outpace inflation (but keep in mind that investments that offer higher potential returns may involve greater risk of loss)
- Lower your expectations for retirement so you won't need as much money (no beach house on the Riviera, for example)
- Work part-time during retirement for extra income
- Consider delaying your retirement for a few years (or longer)

We're here to help! [Contact Sentinel Benefits & Financial Group](#) for the guidance you need.

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