



Forecasting Retirement Income and Expenses

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Are you ready for retirement?
Will you be able to afford to retire?
Are you on schedule?

Most experts agree that a significant number of Americans are not adequately prepared financially for retirement (Yuh, Hanna and Montralto, 1998; Hanna, Garman and Yao, 2003). While a majority of workers believe they are behind schedule when it comes to planning and saving for retirement, and less than half have tried to calculate needed savings, most Americans are confident about their financial security in retirement.

Only two in five workers have attempted to calculate their retirement needs, yet working through a calculation clearly has shown to have positive results. In fact, the *2000 Retirement Confidence Survey (RCS)* found that workers who have tried to calculate how much money they will need to save for a comfortable retirement appeared to be doing a better job of preparing for retirement than those who had not.

The 2000 Retirement Confidence Survey showed that the median amount accumulated by Americans who **have** done a retirement calculation is about \$66,500, compared with \$14,000 for those who **have not** done the calculation.

“The mere act of calculating your numbers gives you a goal and makes you a more disciplined saver,” said Don Blandin, American Savings Education Council (ASEC) president. “Taking that first important step will help you become more aware of all the things that affect your retirement, such as changes in Social Security, so you can plan for your future financial independence.”

Traditionally, retirement income funds came from what was called the “three-legged stool” – Social Security, employer-sponsored pension plans, and personal savings and investments. Unfortunately, many stools have weak or missing legs. The more dependable sources of retirement income you have, generally the better you are financially.

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Retirement Income

To help plan retirement income, ASEC has developed a **Ballpark Estimate Worksheet**.

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The Ballpark Estimate is designed to provide a rough estimate of what you will need to save annually to fund a comfortable retirement. It provides an approximation of projected Social Security benefits and uses only one of many possible rates of return on your savings. Ballpark reflects today's dollars and does not account for inflation; therefore, you should recalculate your savings needs on a regular basis and as your salary and circumstances change. You will not want to stop with the Ballpark Estimate; it is only a first step in the retirement planning process. You will need to do further analysis, either yourself using a more detailed worksheet or computer software, or with the assistance of a financial professional.

The worksheet simplifies the process of determining how much you need to save, assuming you want 70 percent of current income, you live to age 87 and you realize a constant real rate of return of 3 percent after taxes.

You also can complete the estimate online at www.choosetosave.org/ballpark/ and let the computer do the math. This version also lets you choose an amount of living expenses more or less than 70 percent of current expenses.

Expenses in Retirement

Some expenses will be lower in retirement, others basically the same (except for inflation, of course!), while others will increase. For example, the Center for Retirement Research (2004) suggests that rising health care costs will erode retirement security for baby boomers. The health care costs portion of household spending for older Americans (age 65 and over) is expected to rise from 16 percent in 2000 to more than 35 percent in 2030 for married couples, and from 17.3 percent to more than 30 percent for individuals.

Consider each of the following expenses, and how they might change in retirement.

- Housing and location
- Activities
- Health care
- Clothing
- Food
- Transportation
- Work-related expenses
- Retirement plan contributions
- Senior discounts
- Caregiving

Planning for Retirement

As you plan for retirement, keep in mind the following tips:

- Plan for inflation
- Take a practice run
- Live within your means
- Pay yourself first
- Start early
- Save and invest wisely
- Explore your next career
- Mentally prepare
- Carefully consider early retirement incentives
- Consider the implications of delaying retirement



What if your forecasted retirement expenses are greater than your forecasted retirement income? What can you do now to prepare for a balanced budget when you retire? Here are some common strategies for balancing retirement income and expense:

- Save more money
- Increase your income
- Increase retirement contributions
- Delay retirement
- Reduce retirement living expenses
- Tap into home equity
- Sell existing home
- Consider a reverse mortgage

Congratulations!

You now are more prepared for retirement than half of the U.S. population! The act of simple forecasting retirement income and expense can be a great catalyst for individuals and couples to get their retirement preparations on track, and has been shown to lead to greater savings.

I encourage you all to go the next step and work on your own “Retirement Financial Plan” (optional handouts). Thank you for your attention and good luck in your financial future!

Please complete the evaluation and return it to your county Extension office. The information will be collected in a national database to measure the impact of Financial Security in Later Life educational programs.

Thank you for your time and attention!!



References

AARP Data Digest (2002) *Sources of Income for Older Persons in 2002*

American Savings Education Council. (Ballpark Estimate, Retirement Readiness Rating, etc.). Retrieved 5/1/2005 from: www.asec.org/

Butrica, Barbara and Uccello, Cori (2004). How Will Boomers Fare at Retirement? Prepared for AARP Public Policy Institute, AARP, 2004-05.

Johnson, Richard W. and Penner, Rudolph G. (2004) *Will Health Care Costs Erode Retirement Security?* An issue in brief. Center for Retirement Research, Boston College, October 2004, No. 23.

Retirement Confidence Survey. Retrieved 5/1/2005 from: www.ebri.org/surveys/rcs/

Other Educational Resources

Additional resources for those wishing more information to determine retirement income and expense:

Planning for a Secure Retirement (Purdue)
www.ces.purdue.edu/retirement/

Retirement: Secure Your Dreams
(Iowa State Extension)
www.extension.iastate.edu/financial/retire.html

A Retirement Estimator for Farm Families
(Purdue)
www.ces.purdue.edu/farmretirement/

Plan Well, Retire Well
(University of Illinois Extension)
www.retirewell.uiuc.edu/

Featured worksheets

Estimating Retirement Income
www.urbanext.uiuc.edu/ww1/pdfs/25retireincome.pdf

Retirement Expense Worksheet
www.urbanext.uiuc.edu/ww1/pdfs/23monthlycost.pdf

