

Planning for Retirement? Web Calculators Weak on Health Costs

This *In Brief* examines the effectiveness of on-line calculators as tools in planning retirement income.

Most retirement planning calculators are designed to help individuals who have not yet retired determine how much money they will need to save each year in order to produce an income stream during their retirement years.

This paper looks at twelve on-line retirement planning calculators and finds that all but two do not take into account two major areas of potential expenses that significantly affect retirement: health care and long-term care. Without entering that data in the calculations, the user will get a false picture of future spending needs.

All of the calculators examined allow for many factors to determine the level of savings needed to support a given level of spending. People can test different scenarios, using varying interest rates, inflation rates, mixes of stocks and bonds, life expectancies, and tax rates. Calculations can be made for bequests or using up all of a person's assets.

But the authors point out that the calculations are only as good as the information the retiree enters. And if allowances for health care and possibly long-term care expenses are excluded, then all the calculations become inaccurate.

Most of the calculators studied appear to ignore the fact that retiree health benefits are becoming more expensive and out-of-pocket spending under health insurance is increasing. Health care needs increase

with age and health care inflation is higher than general inflation.

Many areas of spending will go down in retirement. Children are usually grown and living independently; expenses like tuition and mortgage payments often are no longer in play; taxes are lower and there is no need for work-related expenses like clothing and commuting. Other expenses, however, like leisure activities and health care, will increase.

What Retirement Planning Tools Are Included in This Study?

- CNN Money (<http://cgi.money.cnn.com/tools/retirementplanner/retirementplanner.jsp>)
- T. Rowe Price Retirement Income Calculator (<http://www3.troweprice.com/ric/ric/public/ric.do>)
- Principal Financial Group (<http://www.principal.com/calculators/retire.htm#goals>)
- Pacific Life (<http://www.pacificlife.com/Channel/Educational+Information/Calculators/Retirement+Planning+Calculator.htm>)
- First American Bank (<http://partners.financenter.com/firstambank/plan/retplan01.fcs>)
- The Retirement Calculator (<http://www.retirementcalc.com/download.cfm>)

- Ballpark E\$stimate (recommended by the Securities and Exchange Commission) (<http://www.choosetosave.org/ballpark/>)
- AARP Retirement Calculator (<http://sites.stockpoint.com/aarp/rc/wm/Retirement/Retirement.asp>)
- Simple Planning (<http://www.simpleplanning.net/Financial%20Calculators/Retirement%20Calculator>)
- Simple Joe (<http://simplejoe.com/moneytools/retire-plan-save-retirement-savings-needs-early.htm>)
- Fidelity Investments calculator (available only to Fidelity customers)
- Mind Your Finances (<http://www.mindyourfinances.com/calculators/long-term-care>)

Only the last two calculators provide estimates on post-retirement spending. The **Fidelity Investments** calculator is designed to help consumers save for health care expenses, and the **Mind Your Finances** calculator focuses on long-term care expenses.

The **Fidelity Investments** calculator (available only to Fidelity customers) uses a series of inputs to estimate lifetime spending, including the key inputs of age of death and the future real health care inflation rate. The calculator provides information on sources of health care spending, including Part B and Medigap premiums, out-of-pocket spending, and expenses associated with Part D. The **Mind Your Finances** calculator requires an estimated cost of long-term care (suggestion is \$137 a day), an estimate of the long-term care inflation rate, and the number of years of long-term care needed.

Although many calculators were found lacking in certain areas, they still provide a valuable service because many consumers would have difficulty replicating the programs' calculations on their own.

Improving Calculator Performance

What can be done to improve online calculators so that they more accurately predict what retirees will need? These calculators should—

- Use a simple but improved estimate of life expectancies (a pull-down screen with standard tables of life expectancy at age 65 for given years of birth)
- Include likely annual or monthly health care spending associated with Medicare medical and drug coverage, retiree health benefits, Medicare supplemental insurance, and private Medicare plans
- Include the need for and cost of long-term care services
- Adjust for age and gender
- Include family history of health care challenges

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