

Recent financial difficulties have many Americans wondering what it all means to them. A question that may be top of mind for many nearing retirement is, “do I need to work longer and postpone my planned retirement?” Deciding when to retire is a tough question, particularly in turbulent economic times.

Though there are several factors you need to consider, the fundamental question you need to answer is whether you will have, at a minimum, enough lifetime income to cover your basic living expenses. The following is a worksheet to help you analyze your situation.

Income/Expenses

Do you know what your basic monthly living expenses will be in retirement? Yes No

Do you know what your monthly income will be in retirement? Yes No

The following is a summary chart of retirement income and basic living expense items. Complete the

chart to estimate your monthly income and expenses. For a more comprehensive review, complete the attached detailed income and expense worksheet at the end of this document.

Do the math

Subtract the monthly expenses from your income.

Total Income _____ - Total Expenses _____ = _____

If your calculation produces a negative number, you should probably consider continuing to work or at least work part time. If your calculation produces a positive answer, you know that your basic living expenses are essentially covered. Again, be sure that the income you’re using is going to last you a

Monthly Retirement Income	Your Estimate of Monthly Retirement Income	Basic Living Expenses	Your Estimate of Basic Monthly Living Expenses
Social Security Benefits		Housing	
Retirement Plan Accounts		Utilities	
Investment Income		Food	
Other		Transportation	
		Medical	
		Debt	
	Total Monthly Income	Total Monthly Expenses	

lifetime. You want to have the peace of mind that these basic expenses will be covered for the rest of your life. In addition to basic expenses, you may also want to consider the lifestyle expectations you have. For example, are you ok cutting back on the “nice to haves” such as vacations, dining out, entertainment, and gifts? If not, you may want to continue working to build more assets so you have the flexibility to spend on those items during retirement.

Online Calculators

You may also want to go through this exercise on your computer. Here are some suggested sites that may help you:

<http://finance.yahoo.com/calculator/retirement/bud-09>

www.kiplinger.com/tools/budget

www.aarp.org/money/toolkit/articles/home_budget_calculator.html

In addition to estimating your monthly income and basic living expenses, here are other key questions you need to consider.

Do you have an emergency savings fund?

Yes No

Most experts suggest you build a permanent savings cushion of 3 to 6 months' worth of living expenses. Although this is the prevailing wisdom, the size of the fund depends on your individual situation and comfort level. For example, if you live in an older home you may be more likely to have large renovation expenses and need more money in your emergency fund. An important factor you should keep in mind is the cost for COBRA insurance, in case you lose your job, so that you could be covered by insurance. This amount has to be included in your emergency fund.

Total emergency fund = _____

Have you calculated your life expectancy?

Yes No

This is a question we rarely want to ask ourselves but it's important in figuring out your retirement plans. This quiz can calculate your potential for long life based on both lifestyle choices and heredity.

<http://calculator.livingto100.com/calculator>

Enter results: _____ - Retirement Age _____ =
Years you need to finance _____

How Should I Manage My Health Care Expenses?

According to a survey by Aetna and the Financial Planning Association, 52 percent of those surveyed expect to spend less than \$300 a month on out-of-pocket costs and health care-related expenses during retirement—less than half of the \$640 a month the average retiree actually spends.

If you are 65 or older when you retire, you are most likely eligible for certain health benefits from Medicare. Generally, you are eligible for Medicare if you or your spouse worked for at least 10 years in Medicare-covered employment and you are 65 years or older and a citizen or permanent resident of the United States. If you are not 65, you might also qualify for coverage if you have a disability or End-Stage Renal disease (permanent kidney failure requiring dialysis or transplant). To find out more, visit www.medicare.gov.

But if you retire before age 65, you'll need some way to pay for your health care until Medicare kicks in. Some employers may offer health insurance coverage to their retiring employees, but this is the exception rather than the rule. If your employer doesn't extend health benefits to you upon retirement, you may need to buy a private health insurance policy (which will be costly) or extend your employer-sponsored coverage through COBRA. Also, if you belong to a membership organization find out if they offer group health insurance coverage to their members.

For more information on health insurance during your working years and on Medicare visit AARP's website at www.aarp.org/health/insurance.

How Will Inflation Impact My Expenses

All of us are feeling the inflation pinch but older adults are hardest hit. They also suffer from “senior” inflation. That's because they spend a larger percentage of their money in food, home energy, and medicine, products that currently are having the sharpest rise in inflation. In a recent survey, AARP found that 59% of Americans ages 65 or older reported having more trouble paying for food, gas, and medicine.

Therefore, keep inflation in mind when figuring out your retirement plans. Most retirement calculators don't include a Consumer Price Index that adjusts for age. So don't underestimate the impact of inflation and consider inputting a slightly higher percentage than the standard 3% inflation growth rate when performing a retirement calculation.

To get an idea of how much inflation can erode your purchasing power during retirement, visit <http://finance.yahoo.com/calculator/retirement/ret-05>.

When Should I Begin My Social Security Benefits

For each year you put off starting your benefits between ages 62 and 70, you increase your Social Security payments by 8%. The Social Security Administration has a calculator that computes the percentage reduction or percentage increase in benefits for retirees when selecting early or delayed retirement, www.ssa.gov/OACT/quickcalc/early_late.html#calculator.

There's another big benefit to delaying Social Security and that's your spouse! A widow or widower, at full retirement age or older, generally receives 100% of their spouse's benefit, plus the delayed retirement credits.

How much can I withdraw from my retirement accounts?

The rule of thumb is to withdraw 4% of your assets in the first year of retirement and increase subsequent withdrawals by the inflation rate. But according to T.Rowe Price, if you withhold your inflation adjustments for the first three years after you retire that can really help out. A retiree with a 55% stock and 45% bond allocation in 2000 would reduce their odds of running out of money by half.

How do I achieve a steady stream of retirement income?

Now that you have a better handle of your monthly income and expenses, make sure you carefully consider whether your retirement savings will last your entire life. None of us know exactly how long we'll live but the calculation you performed above should give you a good idea of how long your savings will last. You're way ahead of the game having done these

exercises because it will allow you to make smart decisions about your retirement plans.

Many people are now buying annuities to make sure they don't outlive their savings. An annuity is an insurance product that provides a stream of income over a lifetime or for a specified period of years.

There are several types of annuities, each with its benefits and disadvantages, but now more experts are suggesting the immediate fixed annuity. The appeal of this type of annuity is that it can turn some or all of your 401(k) or IRA assets into steady, predictable payments that cannot be outlived. In that way, it behaves much like a traditional pension and can be set up to cover at least your basic costs and ensure you won't outlast your savings.

How much annuity do I need? To answer this question, the Women's Institute for Secure Retirement recommends you take the following steps:

Take another look at your expense worksheet and adjust for lower expenses in some items. You won't have to pay Social Security taxes and you may not need to pay work-related expenses.

However, you have to be prepared for some expenses to go up.

- Review the sources and amounts of retirement income that you listed above.
- Subtract your monthly Social Security benefit from your estimated monthly expenses.
- If you have an employer pension that will pay a monthly income, also subtract that amount from your monthly expenses.
- Subtract any other sources of income that will provide a monthly benefit for life.
- If you decide to buy an annuity, it should cover the remaining monthly expenses that will not be covered by Social Security and pension benefits.

Also, to help you figure this out, you can visit the website www.AnnuityShopper.com. It has an easy-to-use calculator to figure how much of your savings you'll need to annuitize to get a specific monthly amount.

Amount you have to invest: _____

Monthly Income: _____

To find out more about annuities, visit
[http://bulletin.aarp.org/yourmoney/retirement/
articles/fixed_for_life0.html](http://bulletin.aarp.org/yourmoney/retirement/articles/fixed_for_life0.html)

Other Resources

You may want to figure out your finances by using the AARP Retirement Calculator. The calculation will only be as good as the information you input so be sure to go through this checklist as you enter the information. Go to www.aarp.org/finance.

To find more about Social Security benefits, visit www.ssa.gov.

To learn more about traditional pension plans, visit www.pbgc.gov.

This and other tip sheets provide general financial information; it is not meant to substitute for, or to supersede, professional or legal advice. © AARP 2008.



Expense Worksheet

	Monthly Cost	Resources
Housing		
Rent or Mortgage		
Maintenance or Condo fee		
Utilities		
Electric		
Gas or Oil		
Water/sewer		
Garbage		
Telephone		
Internet Account		
Food		
Groceries (average bills)		
Transportation		
Car Payment or Lease		
Gas		
Subway, Bus or Train		
Medical		
Health Insurance		You can use this free health care costs calculator to compare health care options that you might be offered at work or when comparison shopping for health insurance. http://partners.leadfusion.com/tools/ consumerreports/healthcoverage/tool.fcs
Regular Prescriptions		
Out-of-pocket medical costs		Look for this information in insurance plan documents such as your Certificate of Coverage.
Long-Term Care Costs		To find the average cost in your state for a nursing home, assisted living facility, adult day center, or home health aide, locate your state in the tables. www.aarp.org/family/caregiving/articles/state-by-state_long-term.html
Debt payments		
Credit Card Payments		Calculate your payment and more www.bankrate.com/brm/calc/creditcardpay.asp
Other debt		
Total Basic Monthly Expenses		

Income Worksheet

	Monthly Income	Resources
Social Security Benefits		Check your annual Social Security Statement or use the SSA calculator to estimate your Social Security benefits www.ssa.gov/OACT/quickcalc/index.html
		Your benefit amount can be affected by a number of different factors. If you already have a benefit estimate, you can use the charts and calculators listed on this page to find out how different retirement dates and situations affect your Social Security benefits. www.ssa.gov/planners/morecalculators.htm
Retirement Plans		
Traditional Pension		Ask your company to help you estimate what pension you may get at retirement. Your pension plan booklet may also provide information that will help you figure this out.
401(k) Plan		How much do I have? You should get a statement at least once a year. You may also contact your pension plan administrator or Human Resources department. To analyze your 401(k), IRA or entire retirement saving portfolio, you should try the following online calculators: T.Rowe Price www.troweprice.com Yahoo Finance http://finance.yahoo.com/calculator/retirement/pay-07
		How do I spend down? The so-called "4 percent solution" is the most traditional approach. It starts with a 4 percent dip into your portfolio in the year you retire, then increases annually only by the rate of inflation. Now you can figure out your monthly income. You may also want to annuitize a portion of your 401(k) assets – see section above on how much you need to annuitize.
IRA Account		Contributing to an IRA is an excellent way to save and provides for tax-deferred growth, if you don't have access to a traditional pension or a 401(k) at your workplace. To calculate how much you'll accumulate, visit www.dinkytown.net/java/RegularIRA.html .
Investment Income		Estimate any other investment income such as CDs, bonds, etc., that will provide a steady monthly income.
Other Income		
Rental Property Income		Only input if you think you're not going to sell the property and expect to receive income for life.
Other Income		
Total Monthly Income		