

HOW MUCH RETIREMENT INCOME WILL YOU REALLY NEED?

Many people underestimate lifestyle costs, medical expenses and inflation.

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What is enough? What is not enough? If you're considering retiring in the near future, you've probably heard or read that you need about 70% of your end salary to live comfortably in retirement. This estimate is frequently repeated, but that doesn't mean it's true for everyone; it might not be true for you.

You won't learn how much retirement income you'll need by reading this article. You'll want to meet with a qualified retirement planner who can help you plan to estimate your lifestyle needs and short-term and long-term expenses.

With that in mind, there are some factors which affect retirement income needs; too often, they go unconsidered.

Health. Most of us will face a major health problem at some point in our lives; perhaps even multiple or chronic health problems. We don't want to think about that reality. But if you're a new retiree, think for a moment about the costs of prescription medicines, and recurring treatment for chronic ailments. These minor and major costs can really take a bite out of retirement income, even with a great health care plan. While generics have demonstrably slowed the advance of prescription drug costs in the past, one estimate found that 65-year-old couple who retired in 2011 would pay \$230,000 for health care costs, excluding insurance and Medicare, as well as the costs for nursing home care.^{1,2}

Heredity. If you come from a family where people frequently live into their 80s and 90s, you may live as long or longer. Imagine retiring at 55 and living to 95 or 100. You would need 40-45 years of steady retirement income.

Portfolio. Many people retire with investment portfolios they haven't reviewed in years, with asset allocations that may no longer be appropriate. New retirees sometimes carry too much risk in their portfolios, with the result being that the retirement income from their investments fluctuates wildly with the vagaries of the market. Other retirees are super-conservative investors: their portfolios are so risk-averse that they can't earn enough to keep up with even moderate inflation, and over time, they find they have less and less purchasing power.

Spending habits. Do you only spend 70% of your salary? Probably not. If you're like many Americans, you may spend as much as 90% or 95% of it. Will your spending habits change drastically once you retire? Again, probably not. Most people only change spending habits in response to economic necessity or in pursuit of new financial goals. People don't want to "live on less" once they have had "more".

Social Security (or lack thereof). Will Social Security even exist by the time you've retired? A study from the Government Accounting Office brings this into sharp focus, stating that the long-lived program may start to run out of money by 2036 and may be broke by the end of that decade. Furthermore, the GAO suggests a 20% cut in benefits, due to increased longevity and lower employment. Even if SSI is still a going concern in 2040, it may be very slim pickings.^{3,4}

So will you have enough? When it comes to retirement income, a casual assumption may prove to be woefully inaccurate. Meet with a qualified retirement planner while you are still working to discuss these factors and estimate how much you will really need.

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Citations.

1 - www.nytimes.com/2007/09/21/business/21generic.html?_r=1&oref=slogin

2 - www.reuters.com/article/2012/02/23/us-column-miller-retirementcost-idUSTRE81M24M20120223

3 - montoyaregistry.com/Financial-Market.aspx?financial-market=will-you-have-an-adequate-retirement-cash-flow&category=3

4 - www.sfgate.com/cgi-bin/article.cgi?f=/g/a/2012/02/17/investopedia73409.DTL