

RETIREMENT: *Secure Your Dreams*

Estimating Your Retirement Expenses

The first step in developing a plan for financing your retirement is to estimate your retirement expenses. How much money will you need to support the retirement lifestyle you picture?



Before You Start

Give some thought to your retirement goals. The publication, *Picture Your Future*, PM 1817A, can help you imagine how your retirement might look. Once you have at least a general idea of the lifestyle you may lead, you can start to estimate how much that lifestyle will cost.

An accurate picture of your current expenses is also helpful. Even though expenses will change, it is much easier to estimate the amount you might need after retirement, if you know how much you *currently* spend in various categories.

Expense Ups and Downs

Most retirees desire a level of living after retirement similar to that before retirement. Many expenses stay roughly the same in retirement. However, most retirees notice that some expenses decrease after retirement, while others increase. These patterns vary from person to person, but do follow some general trends.

Expenses that may decrease

- Work-related costs — commuting, parking, lunches, professional dues or subscriptions, business clothing, dry cleaning
- Income taxes
- Home maintenance costs for tasks you will now do yourself instead of hiring done

Expenses that may increase

- Recreational and social activities
- Travel
- Health insurance
- Health care and prescriptions

Retirement Phases

Because retirement may encompass a 20- to 30-year period, your lifestyle and expenses will likely change during retirement. Many retirees go through an active phase in early retirement that includes extensive travel and recreational activity. Near the end of life, high costs for health care or nursing home care are possible. It may be helpful to project costs separately for three phases of retirement. These projections cannot be precise, but they help make sure that your expense estimates allow for the possibility of change. For example, changes in health could affect lifestyle and expenses, so you may plan cautiously and allow for the high cost of nursing home care in the later stage of retirement. This projection is still an estimate, because you can only guess what might be the duration of this high-cost phase. Even though it is not precise, this estimate based on your best judgments is an important first step in financial planning for retirement.

The Projecting Retirement Expenses Worksheet provides space for you to consider expenses during three retirement phases.

Worksheet Tips

- First list your current expenses, then estimate (in today's dollars) your retirement expenses. Because expenses may vary throughout retirement, it is helpful to consider

Projecting Retirement Expenses Worksheet

	Current Expenses	Expenses during Retirement		
		Early	Mid	Late
Shelter				
Rent or mortgage payments				
Real estate taxes				
Insurance				
Household Operation				
Home repair, yard care				
Water, heat, electricity				
Telephone, cable, Internet				
Waste disposal				
Household supplies				
Other				
Home Improvement & Upkeep				
Furniture, fixtures				
Floor coverings				
Kitchen equipment				
Yard equipment, supplies				
Automobile & Transportation				
Car payments				
Repairs				
Gasoline and oil				
License, registration				
Insurance				
Medical, Health				
Medications				
Physician, dentist visits				
Eyeglasses, hearing aids				
Health insurance				
Long-term care insurance				
Life insurance				
Taxes				
Federal income tax				
State income tax				
Food, Beverages				
Food at home				
Food away from home				
Entertaining expenses				

how your lifestyle may change in early, mid-, and late retirement phases.

- If possible, talk with retired people you know to learn how various expenses have increased and decreased in retirement.
- Keep in mind situational changes that will affect your expenses by the time you retire. For example, the mortgage may be paid off and expenses related to children may be reduced or eliminated.
- Plan for large, occasional expenses such as new vehicles, appliances, and major home repairs. Over a long retirement, some of these needs will undoubtedly occur. Consider budgeting an average annual amount. For example, if you anticipate needing \$40,000 over the course of a 20-year retirement (perhaps \$25,000 for a new car, \$10,000 for major home repairs, and \$5,000 for appliances), you might budget \$2,000 per year for such expenses.
- Examine the totals. An estimate of annual retirement expenses becomes the basis for your retirement financing calculations. If you find great variation among expenses for early, mid-, and late retirement, you may choose to average the three figures, or to base your retirement plan on the highest of the three projections.

Clothing			
New clothing			
Dry cleaning/laundry service			
Shoe repair			
Personal			
Barber/beauty shops			
Toiletries, cosmetics			
Stationery, postage			
Recreation, Education, Other			
Books, subscriptions			
Club memberships, dues			
Movies, concerts, sports events			
Hobby supplies			
Vacations, travel, celebrations			
Adult continuing education			
Pets: care, food, license			
Contributions			
Gifts			
Other			
Other			
Savings, Investments			
Monthly totals: (if monthly figures entered)			
YEARLY TOTALS:			

Be consistent in recording all expenses as either monthly or yearly expenses. The final result will be an estimate of yearly retirement expenses in today's dollars. A shortcut method for projecting retirement expenses is to calculate a percentage of your current living expenses, which may be as low as 60 percent for a high-income single individual or as high as 90 percent for a couple with modest income. The shortcut method does not accommodate individual goals or needs, but it does get you started. *If you use the shortcut, consider coming back later to more accurately calculate your projected expenses.*



Projecting Retirement Expenses

To adjust for the effects of inflation, use the inflation table in the extension publication, *Retirement: Secure Your Dreams—Money Math*, PM 1819, a financial calculator, a computer program, or a financial adviser.

Next Steps

Estimating your annual expenses in retirement is the first step in ensuring that you are financially prepared. Extension's publication, *Retirement Income: How Much Do You Need?*, PM 1818A, guides you through five more steps to make sure you are saving at a rate that will allow you to meet your desired expenses. The next steps include adjusting for inflation and calculating how much you will need to save or invest to reach your retirement goal.

As you work through the next steps, you will use financial tools to help you make the calculations. PM 1819 (see reference above) provides simple charts to assist with the calculations, or you may choose to use a financial calculator, a computer program, or the assistance of a financial professional.

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This is one in a series of publications written to challenge your thinking about retirement. You can also find several other ISU Extension publications that can help you design your future. Ask at your local county office of ISU Extension for additional publications. Also follow the publications link on the ISU Extension Web site at <http://www.extension.iastate.edu>.

- PM 1816 *Begin by Planning Today*
- PM 1817A *Picture Your Future*
- PM 1817B *When Life Changes*
- PM 1818A *Retirement Income: How Much Do You Need?*
- PM 1818B *Estimating Your Retirement Expenses*
- PM 1819 *Money Math*
- PM 1820 *Where Will Money for Your Nest Egg Come From?*
- PM 1821 *Growing Your Nest Egg: Risk and Return*
- PM 1822 *Retirement Investment Options*
- PM 1823 *Painting Your Retirement Picture: Special Considerations for the Self-employed*
- PM 1824 *Update Your Home for a Lifetime of Living*
- PM 1825 *Decisions at the Time of Retirement*
- PM 1826 *If You Want to Know More*

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