



How to Determine Retirement Income Needs



Need help determining how much income you will need in retirement? For retirement income planning purposes, it helps to divide retirement income into two parts—your needs and wants. The goal is usually to design a plan to cover your essential needs first and, if additional resources are available, to also cover as many nonessential wants as possible.

By separating the two, we can give priority to what you must have to survive—things like healthcare expenses, clothing, housing, food, transportation and taxes. Examples of nonessential expenses include entertainment, vacations, gifts and second home purchases. Think about what falls into each category, get a monthly total and consider larger one-time items.

To that end, one easy place to start would be to check your current pre-retirement spending levels for various categories. The more you make electronic expenditures, the easier this can be for you to track those totals. You could also use your checking account and credit card statements. Unfortunately, it isn't as simple as just totaling up your pre-retirement spending. What you spend money on will change as you age. Some items may decrease such as taxes or your housing costs. Alternatively, some of the things you will probably spend more on, like medical expenses, are increasing at a faster clip than inflation on other expenses.

One general rule of thumb is to plan on spending 75-85% of your retirement spending level. Those with higher essential expenses, like a mortgage that will carry into retirement, will need to count on spending more. In any case, absent a good reason, it isn't realistic to plan on spending a fraction of what you are spending today. It also isn't a good idea to base your assumptions from how your parents or grandparents lived. Thanks to technological and medical advances, our quality of life as we age has improved dramatically and correspondingly, our spending has increased as we are able to do more for a longer period of time.

At the end of the day, you just have to know yourself and know your spending habits and how that's going to affect your income in your retirement years.■

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