

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 1817*, store.extension.iastate.edu/Product/PM1817, 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, projecting your needs after retirement is much easier 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.

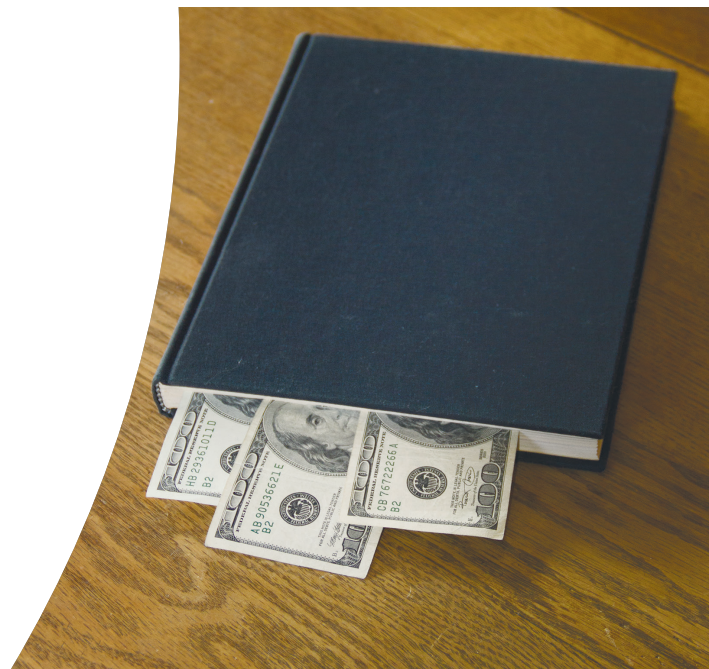
Expenses that may decrease

- 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

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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** on page 3 provides space for you to consider expenses during three retirement phases. The final result will be an estimate of yearly retirement expenses in today's dollars.

Worksheet Tips

- **Start with current spending**—List your current expenses, then estimate (in today's dollars) your retirement expenses. Because expenses may vary throughout retirement, it is helpful to consider how your lifestyle may change in early, mid-, and late retirement phases. Record all expenses on a monthly basis. The final result will be an estimate of yearly retirement expenses in today's dollars.
- **Consult those with experience**—If possible, talk with retired people you know to learn how various expenses have increased and decreased in retirement.
- **Account for changes**—Keep in mind situational changes that will affect your retirement expenses. For example, the mortgage may be paid off and expenses related to children may be reduced or eliminated.
- **Forecast big-ticket items**—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.
- **Shortcut option**—A shortcut method for projecting retirement expenses is to calculate a percentage of your current living expenses, which may be as low as 70 percent for a high-income single individual or as high as 120 percent for a couple with modest income. The shortcut method does not accommodate individual needs or goals, 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 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, waste disposal				
Telephone, cable, Internet				
Household supplies				
Home Improvement and Upkeep				
Furniture, fixtures				
Floor coverings				
Kitchen equipment				
Yard equipment, supplies				
Automobile and 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				
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, entertaining				
Hobby supplies				
Vacations, travel, celebrations				
Adult continuing education				
Pets: care, food, license				
Contributions				
Gifts				
Savings, Investments				
Savings, investments				
Other				
Other				
Monthly totals:				
YEARLY TOTALS: (multiply monthly totals by 12)				



Next Steps

Estimating expenses in today's dollars is the foundation for your retirement calculations, but adjusting for inflation is a critical next step. Even when annual inflation is low, the cumulative effect is substantial in the years prior to and during retirement. Additional calculations are also needed to determine how much you need to save in order to reach your retirement goals. *Retirement Income: How Much Do You Need?*—PM 1818A, store.extension.iastate.edu/Product/PM1818A, guides you through these steps.

These projections require tools designed for compound financial calculations. *Money Math*—PM 1819, store.extension.iastate.edu/Product/PM1819, provides simple charts which enable you to do these calculations on paper, or you may choose to use a financial calculator, a computer program, an on-line calculator or the assistance of a financial adviser.

RESOURCE

- **Ballpark Estimate of Retirement Needs**—www.choosetosave.org/ballpark
A non-commercial online calculator, provided by the American Savings Education Council

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Written by Barbara Wollan, family finance specialist. Reviewed by a team of ISU Extension and Outreach family finance specialists. Designed by Hobbs Designs, LLC.

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