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Budgeting For Your Retirement

Written by Securities America for distribution by The Farese Group

Retirement planning requires determining your retirement expenses, and that starts well before you retire. Start your budget planning process at least five years before you plan to retire to help you determine whether you'll have enough accumulated to actually afford retirement.

Begin by drafting an entire retirement budget. Estimate how much money you will need to meet your expenses and still have enough left to meet a standard of living you will enjoy. Estimate all anticipated living expenses to get an idea of how much you'll need to retire comfortably. Remember to include food costs, mortgage payments or rent, utilities and transportation costs.

To help track your expenses, MoneyInstructor.com recommends gathering your entire bank and billing statements and receipts from the past three months (or keep track of all of them for the next three months). Your goal is to record every dollar you spend including credit, checking and cash. Once you have every expense recorded, divide your expenses into three categories: fixed essential, variable essential and non-essential. Fixed expenses are expenses that are the same each month, such as rent or mortgage, car payments and car insurance. Variable expenses change each month and include car maintenance, gasoline, food, electricity, and phone. Non-essential expenses include most of the things we don't need, such as movies, magazines, dining out, gifts and snacks. Clothing can be labeled both essential and non-essential. Budget enough money just for the essential amount of new clothes (to replace things that or worn or no longer fit), but not the impulse buys you purchased just because something was on sale. Once you have all your expenses in writing, and separated into these three categories, it will be easier to see where your money goes, including potential wastes.

Next, calculate your expected retirement income. Get together with your financial advisor to determine your current principle amount of savings. Be sure to include home equity and investments. Volatile markets and decreasing company benefits mean there are no guarantees for determining your income, but your financial advisor should be able to give you a general idea of what you can expect given your current investments and employment. The Social Security Administration also provides an annual estimate of benefits each year per income level.

The third step in creating a budget is to consider health care and long-term care expenses. "Rising health care costs threaten boomers' retirement security. In 2040, half of adults age 65 and older will spend at least 19 percent of their income on health care, up from 10 percent in 2010," according to "Will Health Care Costs Bankrupt Aging Boomers," a research article by Urban Institute. Fidelity estimated that a 65-year-old couple retiring in 2011 will need $230,000 to pay for medical expenses throughout retirement. This amount did not include nursing-home care. By assessing your current medical condition, expenses and future care plans, you and your advisor should be able to generate a relatively accurate health-care estimate.

Once you have your budget together with expenses, including health-care costs, and your estimated income, you need to choose a hypothetical retirement date. If Social Security is part of your income plan, note that drawing Social Security benefits between the ages of 62 and 66 – or if your income exceeds the annual amount determined by law – could reduce your benefits. Depending on your current savings and your estimated lifestyle expenses, you may be unable to retire early or even “on time.”

The best test for determining if you are ready to retire is to practice living on your retirement budget for three months. If you struggle, look back through your budget and see which expenses you can cut. If your expenses are as bare as you can make them, you may want to look at working longer. Retirement requires you to closely manage your income and budget so you can enjoy life. If you don’t plan for the future now, your future may be limited.

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