Plot out what you’ll spend in retirement

By Jeff Gorton

Age 85 is a bad time to go broke. Personal savings, various investments and, yes, Social Security may prove to be short of what you’d expected.

Budgeting how you spend money before retirement can often be a misleading measurement of how you’ll actually spend it during retirement.

Spending 40 hours a week at work not only earns you a paycheck, it also keeps you from spending money on more vacations, matinee screenings at the movie theater, extra trips to the mall or shopping online. You need to be exceedingly realistic in your planning, and the five years before retirement are actually the most crucial in solidifying post-employment stability.

To prevent a rude awakening during retirement, start with a written income plan. Here are some benefits and the importance of this “living document”:

• A comprehensive list of life expenses paints a clearer picture. For a 65-year-old married couple today, there is a 72 percent chance that at least one spouse will live to age 85; a 45 percent chance that one will live to age 90, and an 18 percent chance that one will reach age 95, according a recent study from the CDC National Center for Health Statistics. You may not think of listing things like pet care, yard maintenance, and regular visits to salons or spas. But if you enjoy those services now, you may want them during retirement, and you might find that you underestimated the real cost of maintaining your desired lifestyle. And, that’s not including gifts to children and grandchildren.

• The forecast of a two-legged stool. A WIP helps you appreciate the reliability of retirement income. What sources of income do you anticipate having? Traditionally, retirement funding has been viewed as a “three-legged stool,” implying a balance between Social Security, retirement plans and savings/investments. As the baby boom generation ages, Social Security benefits may decrease – and the age at which an individual can collect benefits may increase. Changes in employment may affect retirement plans. As a result, the third leg of the stool, savings/investments, may become even more important.

• Who is authoring your WIP? As with all written documents, you must always consider the source. What you may not realize is that a financial planner is liable to have a stake in selling you a financial product. Just like a retailer may have an incentive to move certain brands of products, many planners are incentivized to have you invest in specific financial vehicles from major institutions. What plan works best for you? Seek advice from an expert who isn’t trying to sell you something, such as an independent firm.

If you don’t have a written income plan, then you’re just hoping things will work out.

Jeff Gorton is a certified public accountant and a certified financial planner specializing in individual tax and retirement planning.