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Six Steps to Calculating Your Retirement Budget

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Try living on your retirement budget for three to six months before making a commitment to retire with your employer. Keep in mind that retirement is a long time to go without working income, and preparation for it takes more effort than planning for a vacation. Here are some things to determine before you establish that budget for your trial period:

First, thoroughly consider what may be the best Social Security strategy for taking Social Security including deferring starting ages and possibly employing strategies such as filing a restricted application, file and suspend payments, or simple suspension. Deferral requires the use of savings, but that may be the best investment you can make.

Second, consider using retirement savings to pay down a mortgage or other debt. Generally, it's better to pay off the debt if your after-tax return on your investments is less than the loan interest rate or there is uncertainty about a steady retirement income or possible future expenses. However, savings that are in a qualified account such as a 401(k) or IRA require a more careful tax look before paying off debt.

Third, make a comprehensive retirement plan that (1) includes a projection of the surviving spouse's retirement income after the first death, but (2) excludes significant funds set aside for emergencies and known large future expensive events such as relocation, remodeling, roof replacement, new cars, etc. You don't want to have to finance these things with credit once in retirement. If you include those reserves in your retirement savings when you use most Internet planning programs, you'll likely pay for emergencies and expensive events with credit.

Fourth, make a long-term-care (LTC) decision about whether you will buy a LTC policy or self-insure or depend on a relative or welfare at that time.

Fifth, thoroughly understand what your health insurance will cost including Medicare monthly charges which vary with income and come directly out of your Social Security checks.

Sixth, base your plan on a conservative set of assumptions about inflation, returns and taxes. The future may not be as kind as the past considering (1) the growing number of elderly that will ultimately depend on welfare thereby requiring more government support, (2) the diminishing percentage of workers that will have to support the increasing percentage of elderly, (3) the growth of national debt and associated interest costs that compound as interest rates increase, (4) the appalling shortage of personal savings to support retirement, and (5) tripling of the money supply in the last few years with its impending inflation effect.