

Changes in Living Expenses During Retirement



In order to plan realistically for the future you need to have a clear understanding of what money you need when you retire. This will include the cost of living and special activities you will have. It is estimated that you will need to replace 60% to 80% of your pre-retirement earnings in order to keep the standard of living you have had thus far.

Changing Costs

A good place to start is to estimate what you are now spending on essentials such as food, clothes, heat, utilities, insurance and taxes. These expenditures will certainly continue after you retire. As will your need for medical and dental care.

Similar to the Traditional IRA, the Non-Deductible IRA allows a working individual under the age of 70 ½ to contribute up to \$3,000 of compensation each year. Unlike the Traditional IRA, the Non-Deductible IRA contribution is made with “after-tax” dollars – the income tax deduction allowed the Traditional IRA is not available to the Non-Deductible IRA. For the most part, the Non-Deductible IRA is utilized by those who do not qualify for the Traditional IRA, but can benefit from the “tax deferral” of earnings allowed with the Non-Deductible IRA.

Next, calculate which of your day-to-day expenses will decrease and by how much. Perhaps your mortgage will be paid off, your children likely will be self sufficient, your income and Social Security tax liability may drop dramatically as your sources of income change, clothing costs generally go down.

In addition to your day-to-day needs, it is always a good idea to have funds set aside for an emergency, usually from 3 to 6 months worth of expenses in a liquid account should suffice. If you rely on investments in stocks or other equities for your emergency fund you risk being forced to sell assets at inopportune times such as when the market is down.

Determining the Need

One of the most important steps in retirement planning is accurately estimating how much income you will need. You should review your retirement needs at least once a year, as your financial situation and needs will change often.

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