

# What Will You Need When You Retire?



## **Saving for Retirement without Living Like a Pauper or Winning the Lottery**

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The Employee Benefit Research Institute, after extensive research into the retirement funds amassed by Americans, has concluded that by 2030, retirees will run \$45 billion short of what they will need for basic living expenses. You can meet those basic needs if—when you retire—your savings can give you about 50 percent of your pre-retirement pay for each year of retirement, according to the Center for Retirement Research at Boston College. But with that 50 percent and Social Security, there will be little for indulgences. It's a standard no-frills approach.

And if you are like half of Americans, you have saved less than \$36,000, according to the Congressional Research Service. That's hardly the level of savings you are going to turn into half of your salary for every year until you reach 80, 90, or even 100. So what can you change your retirement outlook? Think about some of the following things:

### **1. Saving Enough?**

This is where you should start—calculating what you will need for retirement. This may sound daunting. The Web is full of calculators that walk you step-by-step through the process of calculating what you will need for retirement, and you don't have to do the math. They simply tell you what information is required, and you put in the data from your own life. Try some of the calculators at [www.choosetosave.org](http://www.choosetosave.org).

### **2. Health Insurance Is a Black Hole**

In 2002, the average American 65 and up spent an average of \$3,586 on healthcare. That was 12 percent of their living expenses, according to the U.S. Bureau of Labor Statistics. If your employer offers healthcare for retirees, don't count on it. Only 11 percent do, and 85 percent of those currently offering it say they are looking for ways to reduce the benefit or cut it out completely, according to the Employee Benefits Research Institute. So plan to pay for health insurance

yourself. What might that expense run? Costs have been going up about 7 to 10 percent a year. The Employee Benefits Research Institute has calculated that a person who retires in 2014 and buys top-quality health and drug coverage will need about \$202,000 in savings just to pay for that if they live to age 80. If they live to 90, it's \$381,000. To 100: \$610,000.

### **3. Don't Save Too Much**

Think of your calculation like going to the doctor. You may dread the bad news, but you will get the diagnosis and prognosis. After you know that, you will be able to take action and repair the damage or improve your financial health for the long run. The doctor can prescribe medicine that will heal you or put you on course for a healthier life. Your finances are the same: If you know the prognosis, you can put your money on a prescription. In this case, that prescription will come down largely to investments—which ones you will need and how much of each. Perhaps you are relying too much on a savings account or the wrong types of mutual funds. Perhaps you will need mutual funds you haven't had in the past or a different type of IRA. Perhaps you will need to cut back on certain mutual funds.

### **4. When Will You Retire?**

Nearly 80 percent of baby boomers plan to work at least part-time after they retire, according to AARP studies. Most want to work, but 33 percent say they will have to work to pay for necessities. As a generation, boomers don't see themselves as fulfilled if they simply retire and head for an easy chair. Yet there's a question about how long you can count on work. McKinsey & Company did a national survey of retirees in 2006 and found that 4 out of 10 people had planned to work longer but were forced to retire—either because of their health or because they lost their job.

### **5. How Long Will You Live?**

Retiring without contemplating how long you might live is like taking a trip across the desert. If it's going to take you a day, you might need a gallon of water. If it's going to be a week, you had better have several gallons. Although you don't know with certainty how long you will live, consider how long your parents have lived and then adapt that for your lifestyle and the advances of modern medicine. Life expectancy continues to get longer and longer. When Social Security began, if you made it to age 65, you were expected to live 12 more years. Now, if you make it to 65, the American Academy of Actuaries estimates that men will live to 84.1 years old and women to 86.8. Financial planners who have healthy clients with parents who lived beyond 65 tend to have them plan to accumulate enough savings for a lifetime that extends to age 95 or 100.