

*Focus on Retirement*

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Unit 8

Purdue Extension

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## *Focus on Retirement*

Are you looking forward to the day you retire and have more time to travel, spend with family and friends, enjoy new hobbies, or increase your volunteer work? Or does the thought of retirement make you slightly uneasy; because you don't know if you will have enough money to stop working, and you don't know how much you need to save? Being able to retire when you want, and to live comfortably, is a dream for many Americans, and the goal of this unit is to help you reach it.

The biggest question is, when the time comes to stop working, will you have enough income to continue your lifestyle or to provide the lifestyle you desire? Social Security payments alone will not be enough for most of us. Everybody wants to live comfortably in retirement, but many fail to plan for it.

# Life Expectancy

Retirement is an important stage of life now that Americans live longer and enjoy better health. In fact, most people can expect to spend 25 percent of their lives in retirement.

As you plan, keep in mind that the average American life expectancy is 74.1 years for men and 79.5 years for women. Those who reached age 65 in 2000 will live to an average of 81 years for men and 84 years for women. Life expectancy for those who reached 85 in 2000 is 92 years for women and 91 years for men. But life expectancy could be significantly greater by 2012, when the first baby boomers reach normal retirement age. For example, among female baby boomers, up to 25 percent are expected to see age 85, twice the number of males expected to live that long. Life expectancies are average, and basing your retirement planning on “the average” may be dangerous if you are in good health.

Source: National Center for Health Statistics, 2001.

# Planning for Retirement

Planning is key to successful retirement. Don't assume someone else will take care of you. To begin:

- 1) Write down your retirement goals. This will help you know how much you need to save.
- 2) Have a savings and investment plan. People don't plan to fail; they fail to plan.
- 3) Take advantage of tax-deferred retirement plans such as Individual Retirement Accounts (IRAs), 401(k) plans, etc.

For information on planning for an early retirement, visit this Iowa State University Web site: <http://www.extension.iastate.edu/financial/earlyret/>

## Retirement Location

No matter where you spend your retirement years, it is important to consider what lifestyle you see for yourself. Using Worksheet 22, describe what you really want in retirement.

## Expenses After Retirement

As you plan for retirement, it is helpful to look at what you are spending now to live. Use Worksheet 23, *Estimated Annual Cost of Living*, to record what you spend annually in each category. Refer to Worksheet 9: *Weekly/Monthly Income/Expense Statement*, for assistance. By calculating the effects of inflation on your living expenses until you retire, you will have an idea of how much income you will need in retirement to maintain your current lifestyle. But inflation will continue at some rate after you retire, and that will affect your disposable income.

After you retire, you may spend less on certain categories: taxes (income taxes are usually lower, and you probably won't pay Social Security taxes) and savings and investments (you probably won't contribute to a pension fund, although the need for savings will still be there). However, you may spend more on travel or for medical needs. Use Worksheet 24 to calculate possible changes in your expenses.

## Net Worth Statement

Your net worth statement, a picture of the financial resources you already have, should be reviewed at least every year. Refer to Unit 3, Worksheet 8.

## Retirement Income

The primary sources of income for most retirees are Social Security, public and private pensions, and payments and earnings from personal savings and investments. Between 10 percent and 20 percent of retirees also have earnings from post-retirement employment.

- 1) Social Security was not developed to totally support people in retirement. On the average, about 21 percent of your living expenses will be covered by Social Security, and 53 percent from pension plans, if you have them.
- 2) Retirement plans are important benefits provided by private and public employers, unions, and the military. If you have rights to a retirement benefit, you are fortunate. In 1995, 46 percent of men over age 65 received a pension (average: \$11,460 per year), compared to 25 percent of women (average: \$6,684 per year) according to the Employee Benefits Research Institute in Washington. You need to know if you are covered by a pension plan and if so, what type of plan. Ask questions about pension plans when looking for work, and stay familiar with yours throughout your working years.
- 3) There are tax-deferred financial products that you can invest in to save for retirement. These include Individual Retirement Accounts (IRAs or Roth IRAs), 403(b) plans (if you work for certain nonprofit organizations such as schools, hospitals, or churches), 401(k) plans, deferred compensation, thrift or personal savings plans, simplified employee pension plans (SEPs), or a Keogh Plan if you are self-employed.
- 4) The fourth source of potential income during your retirement may be earnings. Do you plan to “retire” to a new career? Do you plan to work part-time in retirement to add to your income? Do you have an interest in a business or in starting a small business?

## **Saving for Retirement**

The farther away retirement is, the more opportunity you have to increase your retirement income. But you need to start now! Contributions to Social Security, company pension plans, and IRAs follow fixed guidelines. But your employer may provide options for you to make additional contributions to your pension plan, allow purchase of a Supplement Retirement Annuity (SRA) with before-tax dollars, or participate in a 401(k) plan.

On the average, a retiree's income comes from:

- Investments 16%
- Employment 24%
- Social Security 39%
- Pensions 18%
- Other 2%

Source: T Rowe Price Associates, 2001

## *Allocating Assets*

How you allocate your assets may change from preretirement to postretirement. No two investors will develop the same allocations, because of variations in age, income, family situation, overall financial goals, and personal tolerance for risk. The appropriate allocations will, therefore, change with time and circumstances. In the past, retirees often focused on protecting their principal. Now due to longer life expectancy and inflation, experts agree that retirees should devote at least part of their portfolio to growth-oriented investments. You may want to consider selecting a financial adviser to help you determine the best asset mix for you.

# Retirement Realities

Achieving a secure retirement requires many years of planning. Many people neglect to plan for their retirement and, as a result, either work beyond their desired retirement age or live a financially crimped retirement lifestyle.

The end result of the financial actions you take throughout your working years — saving regularly, investing your savings wisely, and insuring against the unforeseen — is to be financially secure by the time you retire.

Adapted from: *Comfortable Retirement: Fantasy or Reality*, by Rebecca Haynes-Bordas, Purdue Extension – Marion County, 2000.



## **Retirement Action Box**

- Write down your retirement goals.
- Estimate and project retirement needs using Worksheets 22 – 24.
- Review Worksheet 8: Net Worth Statement.

# Worksheet 22: Your Retirement Lifestyle

What will your lifestyle be like during retirement? For each item listed below, describe what you really want in retirement.

1. Your home (where you will live): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. Transportation (your own car, public transportation): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. Food (how often will you eat out or entertain friends or family?): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. Clothing and personal care (how will these needs change?): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. Health and health care (doctor and hospital costs, prescriptions): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
6. Entertainment (movies, reading books, theater, clubs, shopping): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
7. Hobbies (woodworking, gardening): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
8. Recreation (golfing, fishing): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
9. Travel: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Adapted from *Retirement Planning* by E. M. Maddux, University of Georgia CES, 1996.

# Worksheet 23: Estimated Annual Cost of Living

Fill in the first column with what you are now spending annually to live. Then enter the inflation factor by following the steps listed on the inflation factor table on the next page. (You may do this for the total or for each category of costs.) Multiply column 1 by column 2 to get an idea of the income you will need for your first year of retirement.

	Totals if You Were Retired Now	Inflation Factor	Future Budget at Time of Retirement in _____ Years
Shelter	\$ _____	_____	\$ _____
Household operation and maintenance	\$ _____	_____	\$ _____
Home improvements	\$ _____	_____	\$ _____
Automobile and transportation	\$ _____	_____	\$ _____
Food	\$ _____	_____	\$ _____
Clothing	\$ _____	_____	\$ _____
Personal	\$ _____	_____	\$ _____
Medical and health	\$ _____	_____	\$ _____
Recreation, education	\$ _____	_____	\$ _____
Contributions	\$ _____	_____	\$ _____
Taxes	\$ _____	_____	\$ _____
Insurance	\$ _____	_____	\$ _____
Savings, investments	\$ _____	_____	\$ _____
Irregular expenses (ex. gifts, license plates, holiday spending)	\$ _____	_____	\$ _____
<b>ANNUAL TOTAL</b>	\$ _____	_____	\$ _____

Adapted from *Financial Planning for Retirement*, NCR-264, Field and Hathaway, Michigan State University CES 5/87.

## The Inflation Factor

What is inflation? It is a widespread and sustained increase in the general price level of goods and services. Economists say when prices go up 3 percent or more a year, the country is in a state of inflation. While just about everyone gets hurt by inflation, people who live on fixed incomes may feel the crunch more than others because each of their dollars buys less. Inflation rates have been extremely modest in recent years — between 2 percent and 4 percent. But even a 2 percent annual rate will have a cumulative effect, and prices will be higher in the future than they are right now. That's why it makes sense to build inflation into your retirement plans.

*(Continued)*

**(Worksheet 23 continued)**

On Worksheet 23, *Estimated Annual Cost of Living*, you filled in the first column with the cost you calculated for each of the expense categories listed. To fill in the second column, turn to the table below, *Annual Rate of Inflation*.

- 1) From the column on the left of the table, “Years to Retirement,” choose the number of years you have until your retirement.
- 2) Then select an inflation rate from the row across the top. Inflation cannot be predicted from year to year. In 1980, it was 12.4 percent. In 1997, it was 2.2 percent. The 10-year average inflation rate from 1985 to 1995 was 3.6 percent.
- 3) Read across and down to find the appropriate inflation factor corresponding to your predicted rate of inflation. For example, 10 years at 6 percent inflation gives a factor of 1.79.
- 4) Multiply your estimated annual cost of living expenses from the first column of Worksheet 23 by the inflation factor to get an idea of the amount of income you will need for your first year of retirement. (Example: \$14,000 x 1.79 = \$25,060.)

Years to Retirement	Annual Rate of Inflation									
	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%
1	1.02	1.02	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11
2	1.04	1.04	1.08	1.10	1.12	1.15	1.17	1.19	1.21	1.23
3	1.06	1.09	1.13	1.16	1.19	1.23	1.26	1.30	1.33	1.37
4	1.08	1.13	1.17	1.22	1.26	1.31	1.36	1.41	1.46	1.52
5	1.10	1.16	1.22	1.28	1.34	1.40	1.47	1.54	1.61	1.69
6	1.13	1.19	1.27	1.34	1.42	1.50	1.59	1.68	1.77	1.87
7	1.15	1.23	1.32	1.41	1.50	1.61	1.71	1.83	1.95	2.08
8	1.17	1.27	1.37	1.48	1.59	1.72	1.85	1.99	2.14	2.30
9	1.20	1.31	1.42	1.55	1.69	1.84	2.00	2.17	2.36	2.56
10	1.22	1.34	1.48	1.63	1.79	1.97	2.16	2.37	2.59	2.84
11	1.24	1.38	1.54	1.71	1.90	2.11	2.33	2.58	2.85	3.15
12	1.27	1.43	1.60	1.80	2.01	2.25	2.52	2.81	3.14	3.50
13	1.29	1.47	1.67	1.89	2.13	2.41	2.72	3.07	3.45	3.88
14	1.32	1.51	1.73	1.98	2.26	2.58	2.94	3.34	3.80	4.31
15	1.35	1.56	1.80	2.08	2.40	2.76	3.17	3.64	4.18	4.78
16	1.37	1.61	1.87	2.18	2.54	2.95	3.43	3.97	4.60	5.31
17	1.40	1.65	1.95	2.29	2.69	3.16	3.70	4.33	5.15	5.90
18	1.43	1.70	2.03	2.41	2.85	3.38	4.00	4.72	5.56	6.54
19	1.46	1.75	2.11	2.53	3.03	3.62	4.32	5.14	6.12	7.26
20	1.49	1.81	2.19	2.65	3.21	3.87	4.66	5.60	6.73	8.06

Adapted from *Financial Planning for Retirement* by Field & Hathaway, Michigan State University CES, 1987.

# Worksheet 24: Estimated Changes in Spending After Retirement

Use this worksheet to calculate possible changes in your expenses. For each expense category, figure the difference between what you are spending now and what you expect to spend after retirement. If the retirement expense will be lower, put the difference in the “less” column; if it will be higher, put the difference in the “more” column. Add the figures in both columns and compare the totals. Which total is larger? What does that suggest about your future spending? Will you need to make some changes in what you expect to spend?

Expense	Now Spend About How Much?	Expect to Spend After Retirement	Less After Retirement	More After Retirement
Work related:				
Transportation	\$ _____	\$ _____	\$ _____	\$ _____
Clothing	\$ _____	\$ _____	\$ _____	\$ _____
Dues	\$ _____	\$ _____	\$ _____	\$ _____
Meals	\$ _____	\$ _____	\$ _____	\$ _____
Other	\$ _____	\$ _____	\$ _____	\$ _____
Social Security taxes (taken out of check)	\$ _____	\$ _____	\$ _____	\$ _____
Income taxes	\$ _____	\$ _____	\$ _____	\$ _____
Pension plan contributions	\$ _____	\$ _____	\$ _____	\$ _____
Contributions to other retirement accounts (IRA, etc)	\$ _____	\$ _____	\$ _____	\$ _____
Savings, investments for retirement	\$ _____	\$ _____	\$ _____	\$ _____
Travel	\$ _____	\$ _____	\$ _____	\$ _____
Entertainment, leisure activities	\$ _____	\$ _____	\$ _____	\$ _____
Gifts	\$ _____	\$ _____	\$ _____	\$ _____
Health insurance	\$ _____	\$ _____	\$ _____	\$ _____
Other health care costs	\$ _____	\$ _____	\$ _____	\$ _____
			<b>Less</b>	<b>More</b>

Adapted from *Financial Planning for Retirement* by Field & Hathaway, Michigan State University CES, 1987.



## Resources

### Unit 8: Focus on Retirement

- 1) Rebecca Haynes-Bordas  
*Comfortable Retirement: Fantasy or Reality*, 2000  
Purdue Extension – Marion County  
6640 Intech Blvd Suite 120  
Indianapolis, IN 46278-2012  
317-275-9305  
<http://www.ces.purdue.edu/marion>
- 2) *Thinking Over an Early Retirement Offer*  
Iowa State University Extension  
Ames, IA 50011  
515-294-4111  
<http://www.extension.iastate.edu/financial/earlyret/>
- 3) Employee Benefits Research Institute (EBRI)  
2121 K Street NW Suite 600  
Washington, DC 20037-1896  
202-659-0670  
<http://www.ebri.org>
- 4) *Financial Planning for Retirement Workbook*, CFS-685-W  
Purdue University Cooperative Extension Service  
West Lafayette, IN 47907  
888-EXT-INFO  
<http://www.ces.purdue.edu/extmedia/cfs.htm#2>
- 5) Maddux, EM  
Retirement Planning HACE E 18,  
University of Georgia Cooperative Extension Service  
Athens, GA 30602  
(706) 542-8999  
<http://www.fcs.uga.edu/extension/econ/saving.html>

- 6) National Center for Health Statistics  
Hyattsville, MD 20782-2003  
301-458-2003  
<http://www.cdc.gov/cio.do>
- 7) National Older Women's League  
666 11<sup>th</sup> Street NW – Suite 700  
Washington, DC 20001  
800-825-3695  
<http://www.owl-national.org>
- 8) Older Women and Work  
Women and Aging Letter, V.5#2  
National Center on Women and Aging  
Heller School MS 035  
Brandeis University  
Waltham, MA 02454-9110
- 9) *Planning for a Secure Retirement*, 2000  
Purdue University Cooperative Extension Service  
West Lafayette, IN 47907  
888-EXT-INFO  
<http://www.ces.purdue.edu/retirement>
- 10) Price, T. Rowe, Associates  
100 E Pratt Street  
Baltimore, MD 21202  
410-345-2000  
<http://www.troweprice.com/corporate/000.html>
- 11) *Retirement Estimator for Farm Families*, 2002  
Purdue University Cooperative Extension Service  
West Lafayette, IN 47907  
888-EXT-INFO  
<http://www.ces.purdue.edu/farmretirement>
- 12) "Women and Social Security Project"  
National Council of Women's Organizations  
<http://www.womensorganizations.org>
- 13) *A Working Woman's Guide to Financial Security: Inflation, the Hidden Enemy*  
University of Illinois Extension  
Urbana, IL 61801  
217-244-0191  
<http://www.urbanext.uiuc.edu/home/index.html>



## Materials available in the *Focus on Financial Management* series

### Focus on Financial Management Workbook, CFS-727 (\$25)

This printed workbook contains eight chapters designed to help middle-income adults increase their financial management knowledge. It is designed either for self-directed study or for participants who enroll in a *Focus on Financial Management* program. The workbook contains 24 worksheets to help participants conduct self-assessments and compile appropriate records.

### Focus on Financial Management Coordinator's Guide, CFS-726 (\$75)

This package contains the Coordinator's Guide and Workbook in print and on a CD so that a coordinator can present the eight 2½-hour sessions. The program coordinator is expected to organize and present the sessions and provide materials to the participants. The CD is available separately (CD-CFS-726) for \$50.

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or by fax to (765) 496-1540  
or by postal mail to:

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The following individual chapters of the workbook are available free online.

- CFS-727-1-W, Unit 1: Focus on Getting Organized  
[www.extension.purdue.edu/extmedia/CFS/CFS-727-1-W.pdf](http://www.extension.purdue.edu/extmedia/CFS/CFS-727-1-W.pdf)
- CFS-727-2-W, Unit 2: Focus on Money Personalities  
[www.extension.purdue.edu/extmedia/CFS/CFS-727-2-W.pdf](http://www.extension.purdue.edu/extmedia/CFS/CFS-727-2-W.pdf)
- CFS-727-3-W, Unit 3: Focus on Your Net Worth  
[www.extension.purdue.edu/extmedia/CFS/CFS-727-3-W.pdf](http://www.extension.purdue.edu/extmedia/CFS/CFS-727-3-W.pdf)
- CFS-727-4-W, Unit 4: Focus on Risk Management  
[www.extension.purdue.edu/extmedia/CFS/CFS-727-4-W.pdf](http://www.extension.purdue.edu/extmedia/CFS/CFS-727-4-W.pdf)
- CFS-727-5-W, Unit 5: Focus on Savings and Investments  
[www.extension.purdue.edu/extmedia/CFS/CFS-727-5-W.pdf](http://www.extension.purdue.edu/extmedia/CFS/CFS-727-5-W.pdf)
- CFS-727-6-W, Unit 6: Focus on Credit Cards  
[www.extension.purdue.edu/extmedia/CFS/CFS-727-6-W.pdf](http://www.extension.purdue.edu/extmedia/CFS/CFS-727-6-W.pdf)
- CFS-727-7-W, Unit 7: Focus on Life's Challenges  
[www.extension.purdue.edu/extmedia/CFS/CFS-727-7-W.pdf](http://www.extension.purdue.edu/extmedia/CFS/CFS-727-7-W.pdf)
- CFS-727-8-W, Unit 8: Focus on Retirement  
[www.extension.purdue.edu/extmedia/CFS/CFS-727-8-W.pdf](http://www.extension.purdue.edu/extmedia/CFS/CFS-727-8-W.pdf)

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