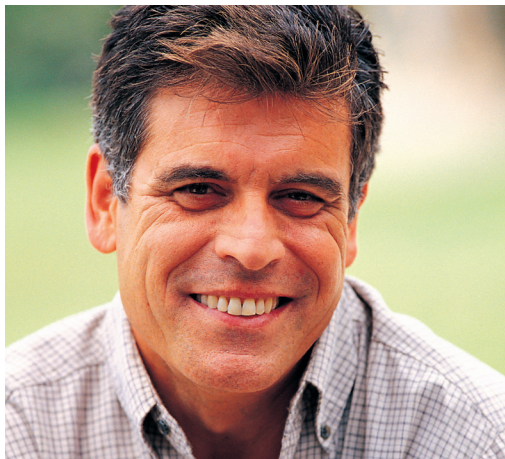




How much will retirement cost?

Retirement Budgeting





BALANCING GOALS AND RESOURCES

As you prepare to settle into retirement, you need to assess your financial resources and look at how to make them work to give you the lifestyle you want during your later years. This workbook on retirement budgeting should help.

Part of the attraction of retirement is that life is more flexible; you're no longer held to strict schedules. But you still need a little organization if you want to make your retirement a success. This workbook contains several exercises to help you master the skills you'll need to take control of your finances. Once you've completed the exercises, you will be able to create a realistic retirement budget that answers three important questions:

How much retirement income will I need?

How much income can I expect?

Will it be enough?





SETTING PRIORITIES

Planning for the transition into retirement is like any financial planning — it starts with setting goals. No matter what your stage of life, some goals are always more important than others. This may be especially true during retirement. Why? In retirement, you may have less opportunity than you do now to increase your income to meet your goals and to respond to changes in your circumstances. So, you'll want to set your priorities to make the most of your money.

Getting your general retirement needs and wants down on paper can help. Start by listing your basic needs on the lines below. Then, fill in the extra things you want to do during retirement.

Some of the items on your list of wants will only cost you time, such as spending more time with family or friends. Others — like travel — will cost both time and money. But the amount you'll be able to spend will depend on how much discretionary income you have left after you've paid your essential list of expenses. Take a minute to go back over your wants list and write "T" next to those items you think will cost you only time and "D" by those that will come out of your discretionary income.

► What You Need

Essentials that your income will have to cover

► What You Want

Extra things that you plan to do during retirement

Now you need to think about how you'll pay for your retirement needs and wants. On the lines below, list all of your retirement income sources.

- Retirement plan benefits
 - Pensions, employer-sponsored 457 deferred compensation plans, individual retirement accounts
- Personal investments
- Spouse
 - Earned income or retirement benefits
- Part-time work
- Social Security

A stylized illustration of a piggy bank, colored in a gradient from dark grey at the top to light grey at the bottom. It has a coin slot on top with a blue arc indicating a coin being inserted. The piggy bank is positioned on the right side of the slide, partially overlapping the text area.

Any retirement budget is a work in progress. One reason: inflation. If your retirement benefits don't provide automatic annual cost-of-living increases to keep up with inflation, you'll need to provide them yourself. How? You can:

- Before you prepare your budget, gather these records. When you're done, store them in one place so that future financial reviews will be easier.

- Retirement Budgeting 4



MAKING A BUDGET

If you've already been using a budget to manage your money, budgeting for retirement should be a breeze. If you're not used to tracking your expenses and income, now is a good time to get started.

For practice, help Sandra prepare her budget. When doing the exercise and your own budget at home, consider that some necessary expenses are fixed, while others vary from month to month, and still others are discretionary. And be sure to include all of your retirement income sources.

Sandra's Budget

After she retires, Sandra wants to spend some of her time visiting her family and all the places she missed seeing while she was working. She's looking at how to budget for the travel she wants to do in addition to her regular living expenses. Help her out by preparing a retirement budget for her using the information below. Be sure to indicate whether each expense is fixed, variable, discretionary, or a combination by putting checks in the appropriate columns.

When you prepare your own budget, you will want to track your actual expenses for a couple of months and compare the amounts you actually paid out to the amounts you initially projected you would pay. Doing so will alert you to any adjustments you may need to make to your budget. The worksheet in the back pocket of this workbook has space for tracking expenses and preparing a retirement budget.

Sandra's Monthly Retirement Income Sources:

Pension: \$2,700, IRA withdrawal: \$300, Interest on investments: \$100

Fixed expenses

Expenses that are the same every month. Examples include rent or mortgage payments, car loan payments, and health insurance premiums.

Variable expenses

Expenses that may change every month, but can't be eliminated. Examples include car maintenance, gas, food, electricity, heat, and phone.

Discretionary expenses

Expenses that you have complete control of and could cut back on or eliminate if need be. Examples include DVD rentals, eating out, sporting events, and vacations.

Monthly expenses:

Mortgage:	\$550
Debt repayment:	\$225
Electricity:	\$160
Groceries:	\$210
Health insurance:	\$300
Gasoline:	\$130
Cable TV:	\$69
Gifts:	\$60
Charity:	\$50
Eating out:	\$40
Telephone:	\$40
DSL Internet connection:	\$30
Salon:	\$28
Prescriptions:	\$18
Books:	\$8
Clothing:	\$100

Quarterly expenses:

Water/sewer:	\$75
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Semiannual expenses:

Car insurance:	\$1,100
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Annual expenses:

Income taxes:	\$5,300
Anticipated travel costs:	\$3,600
Property taxes:	\$3,100
Car repairs and maintenance:	\$900
Magazines:	\$24



	Monthly amount (\$)	Fixed	Variable	Discretionary
Income				
Income total				
Expenses				
Taxes				
Income taxes				
Property taxes				
Taxes total				
Food and housing				
Dining out				
Electricity				
Groceries				
Mortgage/rent				
Telephone				
Water/sewer				
Food and housing total				
Transportation				
Gas/fuel				
Insurance				
Repairs and maintenance				
Transportation total				
Entertainment				
Cable TV				
Internet connection				
Magazine subscriptions				
Vacations/travel				
Books				
Entertainment total				
Health				
Insurance				
Prescriptions				
Health total				
Personal				
Charity				
Clothing				
Gifts				
Salon/barber				
Personal total				
Financial obligations				
Debt repayment (non-mortgage)				
Financial obligations total				
Total expenses				
Totals				
Income (from above)				
Expenses				
Cash (short) extra				



A WORD ABOUT DEBT

Retirement planning guides often assume that retirees will have all of their major debts paid off by retirement time. This isn't always the case. If, like Roger in the exercise below, you are still carrying some debt, know that how you manage your debt is more important than whether you start retirement debt free. Make paying off your debt an early retirement goal, and you'll free up more income for your later years.

You can use the following basic rules:

- List and prioritize debts with the highest interest rate debt first — usually credit cards.
- Set a time frame for paying off each debt using our Debt Payoff Table or one of the online calculators listed below.
- Always try to pay more than the minimum required payment. Making just the minimum payment each month can stretch your payoff period almost indefinitely.
- Control new borrowing. One rule of thumb for new credit card debt is to not charge more than you can comfortably pay off in a month or two.

To see how debt management works, try your hand at setting up a debt payoff plan for Roger and, then, use your experience to set one up for yourself at home.

How Should Roger Manage His Debts?

Roger's debts are listed below. His goals are to be debt-free in five years (60 months) and to pay off some of his debt sooner than that to free up money for discretionary spending. First, prioritize Roger's debts for payoff by assigning a numerical ranking (1 = highest interest rate; 4 = lowest interest rate). Then, use the Debt Payoff Table below to figure what Roger's new monthly payments would be for the new payoff time frames he's set.

Debt	Interest Rate	Payoff Priority	Time Remaining	Current Balance	Minimum Payment	New Time Frame	New Payment
Car loan	7%		50 mos.	\$10,279	\$237.61	48 mos.	
Retail store credit card	22%		N/A	\$1,000	\$28	18 mos.	
All purpose credit card	14%		N/A	\$3,500	\$81	30 mos.	
Mortgage	6%		66 mos.	\$30,000	\$573.14	60 mos.	
Monthly Total					\$919.75		



ONLINE RESOURCES

For help managing credit and debt, check out these websites*:

- www.ftc.gov/credit
- www.federalreserve.gov/creditcard
- www.nfcc.org

**ICMA-RC is not responsible for external website content.*

Debt Payoff Table
(Payment needed per \$1,000 of debt)

The table shows the approximate payment you would need to make to pay off \$1,000 in various time frames at the given interest rates. To use the table, follow these steps:

- Step One: Divide the balance you owe on the debt by \$1,000.
- Step Two: Find the interest rate in the first column that's closest to the interest rate on your debt.
- Step Three: Read across to the payment amount in the time frame column that most closely matches the time frame you've chosen.
- Step Four: Multiply this number by the number in Step One. Your answer is the approximate monthly payment you need to make to pay off the debt within your chosen time frame.

Table with 13 columns: Interest Rate, 6, 12, 18, 24, 30, 36, 48, 60, 72, 84, 96, 120. Rows include interest rates from 5% to 24%.

Source: NPI

How Should You Manage Your Debts?

Using your own personal financial information, create a new debt payoff schedule for yourself.

Table with 8 columns: Debt, Interest Rate, Payoff Priority, Time Remaining, Current Balance, Minimum Payment, New Time Frame, New Payment. Multiple empty rows for data entry.

Monthly Total



READY FOR ACTION

Now that you've brushed up on your budget planning skills, it's time to put them into action. Here's a checklist of the action steps that will help you create a realistic budget for starting your retirement, as well as for managing your income and expenses during the years to come.

Action Steps

- 1 Define your retirement budget goals
- 2 Set priorities
- 3 Gather financial information
- 4 Make a list of your expenses
- 5 Track your expenses (Use the worksheet in the back pocket)
- 6 Determine retirement income sources and amounts
- 7 Prepare a retirement budget (Use the worksheet in the back pocket)
- 8 List debts and amounts
- 9 Create a debt payoff schedule
- 10 At least once a year, review and revise your plan, as needed
- 11 Contact one of ICMA-RC's CERTIFIED FINANCIAL PLANNER™ Professionals if you need more help planning your retirement

This information is being provided for educational purposes and is not intended to be construed as or relied upon as investment advice. ICMA-RC does not offer specific tax or legal advice. FLD000-017-1013-6868-514

BUDGET TRACKING WORKSHEET

Use this worksheet to track your current income and expenses for a few months. For expenses you pay annually or semi-annually, be sure to figure how much you would pay monthly and budget in that amount. After the third month, take an average of each income and expense category to calculate your projected retirement budget.

Income	1st Month	2nd Month	3rd Month	Projected Budget
Wages				
Interest/dividends/investments				
Bonus				
Other				
Income totals				
Expenses	1st Month	2nd Month	3rd Month	Projected Budget
Taxes				
Federal				
State				
Local				
Other				
Taxes totals				
Food and housing				
Cellular telephone				
Dining out				
Electricity				
Groceries				
Heat				
Home telephone				
Mortgage/rent				
Repairs and improvements				
Water/sewer				
Other				
Food and housing totals				
Transportation				
Gas/fuel				
Insurance				
Parking				
Public transportation				
Repairs				
Other				
Transportation totals				
Entertainment				
Books				
Cable TV				
Concerts/clubs				
Internet connection				
Magazines/newspapers				

(continued from part a)

Expenses	1st Month	2nd Month	3rd Month	Projected Budget
Entertainment (continued)				
Movies/plays				
Music (CDs, etc.)				
Vacations				
Video/DVD rentals				
Other				
Entertainment totals				
Health				
Co-payments/out-of-pocket				
Insurance premiums				
Prescriptions				
Other				
Health totals				
Personal				
Charity				
Clothing				
Gifts				
Organization dues or fees				
Salon/barber				
Other				
Personal totals				
Financial obligations				
Debt repayment (non-mortgage)				
Savings				
Financial obligations totals				
Miscellaneous				
Pet care				
Miscellaneous totals				
Total expenses				
Income (from above)				
Expenses				
Cash (short) extra				

RETIREMENT BUDGET WORKSHEET

Use the information from the Budget Tracking Worksheet to begin keeping track of your actual budget versus the projected budget from the tracking worksheet. Track for the first two months of retirement and make any necessary changes. You should be able to use your adjusted budget for the rest of the year. Make a new budget at the start of each year.

Income	Projected	Actual 1st Month	Actual 2nd Month	Adjusted
Wages				
Interest/dividends/investments				
Bonus				
Other				
Income totals				
Expenses	Projected	Actual 1st Month	Actual 2nd Month	Adjusted
Taxes				
Federal				
State				
Local				
Other				
Taxes totals				
Food and housing				
Cellular telephone				
Dining out				
Electricity				
Groceries				
Heat				
Home telephone				
Mortgage/rent				
Repairs and improvements				
Water/sewer				
Other				
Food and housing totals				
Transportation				
Gas/fuel				
Insurance				
Parking				
Public transportation				
Repairs				
Other				
Transportation totals				
Entertainment				
Books				
Cable TV				
Concerts/clubs				
Internet connection				
Magazines/newspapers				

(continued from part a)

Expenses	Projected	Actual 1st Month	Actual 2nd Month	Adjusted
Entertainment (continued)				
Movies/plays				
Music (CDs, etc.)				
Vacations				
Video/DVD rentals				
Other				
Entertainment totals				
Health				
Co-payments/out-of-pocket				
Insurance premiums				
Prescriptions				
Other				
Health totals				
Personal				
Charity				
Clothing				
Gifts				
Organization dues or fees				
Salon/barber				
Other				
Personal totals				
Financial obligations				
Debt repayment (non-mortgage)				
Savings				
Financial obligations totals				
Miscellaneous				
Pet care				
Miscellaneous totals				
Total expenses				
Totals				
Income (from above)				
Expenses				
Cash (short) extra				



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FLD000-017-1013-6868-514