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Boomers Beware: Calculating Your Retirement Nest Egg May No Longer Be Easy

By Harry Steinman

Boomers face bigger challenges than their parents did when it comes to calculating how much money they need to cover retirement expenses. Fewer employers offer the generous pensions for lifetime employees, and post-retirement medical benefits are largely a relic of an earlier era.

And the old rules-of-thumb pre-retirees once used to forecast a secure retirement don't apply in today's economy.

A fresh approach to evaluating your individual financial situation and unique needs will improve your accuracy in calculating how much wealth you will need to accumulate for a retirement nest egg. Here are a few tips to avoid the pitfalls of using outmoded retirement planning techniques.

Understand retirement expenses. The old models predicted a comfortable retirement if the nest egg provided something in the order of 60–70% of pre-retirement income. But many Boomers are affluent enough to pay their bills without a strict budget, so they may be uncertain of their actual expenses as they head into retirement.

One handy tool is to create an "expense diary" by recording every expenditure for 90 days—a long enough period to capture both regular and irregular expenditures. This careful review of actual spending will help estimate how much you will actually need for a safe retirement.

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Be realistic regarding assets. Not all assets generate retirement income. The old model included home equity in the retirement equation. That approach may be financially unsound. Housing costs skyrocketed in the last two decades, so downsizing Boomers may realize less after the sale of their home and the purchase of a new one.

Identify cash flow sources. Be conservative on what you expect from Social Security. President Bush promised full benefits for everyone born before 1950, but even if that holds, retirees need other dependable sources of money. Pensions, annuities and reverse mortgages provide dependable income streams without spending the principal in investment accounts.

An inheritance isn't always the answer. Watch out if your retirement plan relies on an inheritance. Innovative health care technologies mean the population is living much longer than generations past. The parents of the Boomers are spending this intended inheritance on their own health care needs and long-term care expenses.

Decide on a comfortable investment return and risk. Your tolerance for risk must change as you approach retirement. If you have 10 years before retirement you might recover from a stock market setback. As you cross the 10-year threshold, focus on "safe money" to protect your irreplaceable nest egg.

Set a target retirement date. Social Security benefits jump significantly for those who retire after age 67. Some retirees find they miss the activity of employment—and by adding a few more years of income to their plan they sweeten their retirement living.

Plan for a longer life. Longer lifespans wreck havoc with conventional retirement forecasts. The fastest-growing segment of the population includes seniors over age 85. Barring a significant health problem, plan on funding your retirement to age 95.

Want a quick and dramatic way to visualize your retirement timeline? Hold a tape measure open to 95"—long enough to represent your potential lifespan. Mark off where you are today. If you are 55 years old, you'll mark the measure at 55". If you want to retire at 65 years old, note that you'll have only 10 more "inches" to save for 30 "inches" of retirement living.

Expect the unexpected and personalize your plan. Conventional formulas based on average investment return, inflation and longevity rates no longer stand up to today's market volatility. Retirees should seek out planners who give equal weight to a client's emotional concerns about money. Today's retirees are learning the hard way that the old, clinical approach to retirement planning is inadequate.

Keep saving. The best way to improve your odds for a financially sound retirement is to keep adding to your nest egg. ■

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