Ask the Expert

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Q: How can I be certain I won't run out of money during my retirement years?

A: Isn't THAT the million-dollar question! The truth is that there aren't many guarantees when it comes to the future. The old adage about the only sure things being death and taxes comes to mind. The good news is that there are steps you can take to make the odds "ever in your favor."

The process can be broken into two parts: What your expected expenses are going to be during those years, and what your sources of income are going to be during the same period. Most financial planners have software programs designed to help you do these kind of projections, and questionnaires that help inventory income and expenses. The following gives you an idea of how you go about it.

Let's look at expected expenses. When you break this down you see several different types of expenses. First, add up your "fixed" monthly costs. They are easy to list because you know exactly how much they will be. These might include things like your mortgage, insurances, utilities, automobile loans, and other loans, and credit cards, to name a few. The next tier of expenses will include expected costs like food, gasoline, insurance deductibles, cable, etc. Then include those other financial variables like entertainment, travel, clothing, gifts and charitable giving and any other of this type of expense. Finally, and just as importantly, you need to plan for contingencies. Add in a reasonable amount for emergency expenses and unexpected repairs and any other "surprises" that might crop up. I doubt if this list includes all of the expenses that you'll have to cover but it is a useful tool in planning for a financially successful retirement. The other caveat is that it is a dynamic list that you can modify and change as your needs change.

Now let's look at your income sources. This list isn't usually as long but hopefully will be sufficient to meet those expenses! I like to compare this list to a three-legged stool. One leg can be aggregated from your Retirement plans. This includes your pension, IRA, or 401k plan or 403B, Keogh or other similar tax-qualified plans. (Unlike the pension, these other savings vehicles rely on your investment dollars to maximize your retirement assets). The second leg of the stool is made up of your life savings, and other income that might continue coming in during retirement. If you were "maxing out" on your tax-qualified contributions and continued to save other money, you should be able to start your after-working life using these already taxed dollars, along with the third leg of your stool. That leg is your Social Security retirement income. You've been getting statements for years showing what you might expect to receive from Social Security and nowadays you can go online to the Social Security Administration website to calculate your benefits. (We can discuss some other time the decision of taking benefits at 62, or your full retirement age, or even delaying benefits until later). Now that you've looked at your income and expenses, it becomes clearer how prepared you are for retiring. If it looks good…congratulations! You are probably going to be in an enviable minority. However, if the income doesn't meet the expected outgo, you'll see that you have two choices. The first: reduce your expected expenses…you're going to have to "tighten your belt." The second choice: If you have the time before retirement, start saving more. For help in prioritizing your options and maximizing your opportunities seek out a qualified financial professional. It is obvious that this short column doesn't cover all of the variables involved, and questions regarding risks and returns haven't been addressed. But I hope I've explained how you can take some uncertainty out of an uncertain future.

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