



Creating a Retirement Budget

When making a [retirement budget](#), you should always be aware of how much you have left in savings. There isn't just the dangerous issue of running out of savings, but you can also hurt yourself by not spacing out your spending. This is where a retirement budget really helps, as it will account for all of your income and expenses in a comprehensive and long-term manner.

Why Have a Retirement Budget?

Spending money during retirement is a challenge because most retirees have little income outside of their savings. Yes, there are Social Security benefits, but those are not enough to replace your working income (especially if you plan to travel). To ensure that you don't draw too quickly from your savings, it is useful to create a plan for how you will space out your spending. This plan is your retirement budget.

Remember, a budget isn't about depriving yourself. It's about making sure that you match your lifestyle to your income.

How Much Will You Spend in Retirement?

When planning your retirement budget, this is a good question to start with. Most people spend significantly less each month after they retire than before they retired. The rule of thumb is that you can generally expect your expenses to be 70% to 80% of what they were before you retire. Meaning, if you spent \$1,000 each month before you retired, you could expect to spend about \$700 to \$800 each month in retirement.

Now, this is just a rule of thumb. Your exact spending will depend on where you live, your lifestyle and how much you have in retirement savings. So, while the 70% to 80% figure is useful for getting you started, you should create a more specific plan for your spending.

Making a Retirement Budget:

A Your Income

Start your retirement budget planning by considering what your retirement income will be. Do you have any pensions? How much will you receive each month from Social Security benefits? (If you are unsure, try this calculator. It will help you estimate how much you can expect based on your income and when you retire.)

Look at your retirement savings across all your accounts. You may have some money in an employer's 401(k)/401(a)/403(b) or other qualified retirement plan and some money in an IRA. If you switched jobs at any point and didn't roll over your retirement plan, you may have money saved with a previous employer. Some people have annuities that pay a certain amount each month.

Account for and write down all your sources of income and how much you plan to make each month.

B Your Expenses

Once you know how much money you will have each month, the next step is to figure out how much you will spend each month. Look over your bills from the months leading up to retirement in order to see where your money is going.

It's a good idea to label your expenses as either essential or nonessential. Essentials are the things that you have to spend money on each month. This includes any rent, mortgage payments, loans, household bills and groceries. Nonessentials are the things you don't need to have in order to get by in life. This would include app / entertainment subscriptions, eating out at restaurants and travel.



Write down all of your essential monthly expenses in one place. Adding up expenses tells you the bare minimum that you need to spend each month. If you ever get into a financial bind, this is the spending number you should fall back on. You cannot cut out these expenses without exposing yourself to some financial or personal risk. Meanwhile, things like TV subscriptions and morning lattes can all be cut when you need to save.

Note that some expenses, like a mortgage payment, are “fixed expenses,” meaning you pay the same amount every month. Things like an electric bill, on the other hand, are probably variable, as you pay a different amount each month. For variable expenses, look back over the past year or so and take an average of how much you spent. That average will be a good amount to use for your monthly spending.

New Expenses

For the most part, your essential expenses will be similar before and after retirement. If you were paying rent before you retired, you will still have to pay rent after you retire. However, some things will change. One of the biggest changes to consider is healthcare.

Most employers give their employees some kind of assistance with healthcare. That often means paying some or perhaps all of an employee’s premiums. Naturally, your employer will not pay any premiums after you retire.

You are eligible for Medicare benefits once you hit 65 but there may be a gap for some people between when they retire and when they receive Medicare benefits.

So, depending on when you plan to retire, you will likely be paying for some or all of your own healthcare services. Make sure to include all those expenses in your retirement budget.

Even if you are eligible for Medicare, it’s highly possible you will pay more for health insurance than before you retired.

Don’t forget to consider your taxes. If you will have less income in retirement, you will likely have lower taxes, but the tax man won’t disappear entirely from your life. First of all, Social Security benefits are taxable. Withdrawals from tax-deferred accounts like employer-sponsored retirement plans (401(k), 401(a) and 403(b) plans) and traditional IRAs are also subject to income tax.

Fun Expenses

You now have a baseline spending plan. You need to cover all your monthly essentials and healthcare. Compare this to your retirement income. How much does your Social Security cover? If you will need to use your retirement savings to cover expenses, how much will you need to spend each month? And how many years will your savings last based on just your essential expenses?

The last big part of making your retirement budget is adding in the fun expenses. How much of these fun expenses you include in your budget will depend on how you answer the questions in the previous paragraph.

If you only have \$200 of income left after paying essential expenses, you won't be able to spend as much as someone who has \$500 of income left after essentials. To start, add in the things, big or small, that just make life enjoyable for you. It could include everything from getting your nails done once each week, having a dinner out with your best friend once a month or a camping trip that you take every summer with your family. You don't want to deprive yourself of the small joys in life, but make sure that you plan for those things in your budget. And once you add these things into your budget, see how much you have left over. Anything left over is yours to use however you choose. Pull out that bucket list. Have you always wanted to travel to Australia but you could never get the time off work? Well the time has come.

There is one thing you should do before spending any of your extra savings. Have a plan. Let's say you want to travel and take multiple small trips. You don't want to plan your first trip, add-on all the extras and blow your whole retirement travel budget. Or maybe the opposite is true and you want to take a huge trip now and spend the rest of your retirement relaxing. You can make most things work if you have a good plan for them.

Everyone wants to enjoy retirement, but no one wants to run out of money after a few years. A retirement budget will allow you to track how much you're spending and to spread your savings out so that you can live the lifestyle you want. As you think about income, don't overlook anything. Consider Social Security, employer sponsored retirement plan savings and IRAs. Look back at old employers to make sure you haven't forgotten about any savings.

As you look at expenses, start with the essentials. Create a baseline for how much you need to spend each month. After you compare your necessary expenses to how much income you will have each month, you can add in other expenses. Add the fun things that help you enjoy life. And if this whole process seems like a lot of work, remember that doing this now will make things easy for you years down the road. Many likely do not wish to spend their retirement worrying about money. Having a plan will allow you to focus on the things that really matter to you.



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Retirement Budget Worksheet

YOU'LL NEED THE FOLLOWING ITEMS TO COMPLETE THIS WORKSHEET

(Include your spouse's items if you're planning together)

- A** Pay stub/salary information
- B** Social Security Statement (if applicable)
- C** Pension Plan Statement (if applicable)
- D** Statement or balance for any other savings or investment or brokerage accounts (such as IRA)
- E** Retirement plan statements (both current and former employers) and percentage you're contributing

- B** Or you can itemize and estimate your expected monthly household retirement expenses using the list below.

Check only the essential items to support your desired lifestyle in retirement.

NOW THAT YOU'VE GATHERED THE RIGHT MATERIALS, LET'S START BY FIGURING OUT WHAT YOUR EXPENSES MAY BE IN RETIREMENT:

To do this, complete either A or B below. Option B may help you come up with a more accurate number.

- A** To cover your expenses, estimate you'll need 80% or more of your pre-retirement income in retirement.

Current annual income _____ x 0.8 multiplied by salary increase factor (see Table A) _____ = _____ estimated annual retirement expenses

Table A: Salary Increase Factor	
Years to Retirement	Salary Increase Factor
1	1.03
3	1.09
5	1.16
10	1.34
15	1.56
This table assumes a 3% annual salary increase	

Housing	Monthly Amount		Food	Monthly Amount		Personal	Monthly Amount	
Mortgage or Rent	\$	☐	Groceries	\$	☐	Clothing	\$	☐
Property taxes and insurance	\$	☐	Dining Out	\$	☐	Products and services	\$	☐
Utilities	\$	☐	Insurance	Monthly Amount	☐	Entertainment	\$	☐
Household improvements and maintenance	\$	☐	Life	\$	☐	Travel	\$	☐
			Long-term care disability	\$	☐	Dependent Care	\$	☐

Table B continued:

Other	Monthly Amount	☐	Transportation	Monthly Amount	☐	Health Care	Monthly Amount	☐
Hobbies/memberships	\$	☐	Vehicle purchases or payments	\$	☐	Health insurance (including Medicare)	\$	☐
Income Taxes	\$	☐	Fuel and maintenance	\$	☐	Prescriptions and other medical supplies	\$	☐
Charitable contributions	\$	☐	Auto Insurance	\$	☐	Medical bills and expenses	\$	☐
Debt – Credit Cards	\$	☐	Other Transportation	\$	☐	Total Household Monthly Expenses	\$	☐
Debt – Loans (home equity, school, other)	\$	☐	Misc.	\$	☐	Total Household Annual Expenses	\$	☐

NOW LET'S TAKE A LOOK AT YOUR RETIREMENT INCOME



Guaranteed income sources

These are income sources that are designed to last your lifetime (*If applicable, include your spouse's monthly amount*)

Monthly amount

	You	Your Spouse	Start Age
Social Security View your Social Security Statement or sign in to "my social security" at ssa.gov for your specific information			
Annuity(ies)			
Pension Plan (also known as a defined benefit plan)			
Other			



Variable income sources

This is the income that may change with the market or for other reasons.

Monthly amount

	You	Your Spouse	Start Age
Money from retirement savings accounts: 401(k), 401(b), 457, etc.			
Personal Savings: Checking, Savings, CDs, Money Markets			
Investments: Stocks, Bonds, Mutual Funds			
Rental Income			
Other			

**Total Combined
monthly income:**

x12 =

**Total Combined
annual income:**

WHAT'S YOUR BOTTOM LINE

Subtract your total annual expenses from your total annual income.

-

=

**Total annual
income:**

**Total annual
expenses:**

Your bottom line

80% Based on our industry experience and GAO Retirement Security Report to Congressional requestors. The estimated average total spending for post-retirement households was about 77 percent of the spending levels for pre-retirement households. GAO 2013 CE Data; 16-242, Retirement Replacement Rates.

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