Take the Financial Planning Quiz

What percentage of your preretirement income will you need to maintain your lifestyle in retirement?

You should assume at least 70% of your pre-retirement income will be needed to maintain your current lifestyle.

Think of your retirement in phases. The first phase is the 10-15 years immediately following retirement. Frequently one’s spending increases during the first part of this period – for some of you, you are doing all the things you didn’t have the time to do while you were working. For others you will have a second career earning as much or more than you are earning in your federal position. If this applies to you, live on either your pension or your salary, not on both, and invest the other.

In the second phase, your spending will have likely stabilized and you will be covering your day-to-day expenses.

The third phase of your retirement could be a continuation of the second phase but could also result in increased outgo due to the need for assistance, care and medications.

How will your expenditures change when you retire?

Things You Will Not Pay

☐ Retirement Contributions
☐ Medicare HI Tax
☐ TSP Contributions
(Remember this is your money
not a tax or retirement contribution)

Things That Might Decrease

☐ Taxes
Federal Tax — there is no guarantee that your percentage rate for federal taxes will decrease.
State Tax — depending on where you are going to reside you may save several thousand dollars a year.
Check the details in the State and county you are thinking of moving to, not just the income tax provisions.
☐ Commuting Expenses (+ -) (including parking fees)
☐ Expenses for Lunches (+ -)
☐ Expenses for Office Gifts (+ -)
☐ Clothing Expenses (+ -)
☐ Union or Professional Association Dues (+ -)

What Things Will Have Additional or New Costs?

☐ Survivor Benefit (+)
☐ Health Insurance Premiums will be deducted as if you were employed except it will be withheld on an after tax basis. (+ -)
☐ FEGLI/Depending on the basic option you elected and your age if you are carrying Option A, B &/or C. (+ -)

These are all associated with employment.

What Else Might Increase Or Decrease?

Will your mortgage be paid off when you retire? If yes great, that’s extra money that you will have to live on. But don’t forget about property taxes and home owners insurance.

Do you pay home owners association fees? Condo fees? If so they won’t change.

Do you rent? That cost will be constant or increasing.

Utilities may actually increase.
Auto expenses. It is true that you won’t be commuting but you may find that your auto expenses haven’t decreased as much as you had hoped.

Clothes. Your clothing budget may actually increase immediately after retiring--depending on what you now wear Monday thru Friday. You probably won’t be dressing in a suit every day; you will need a casual wardrobe. (+ -)

Expenses associated with retirement activities (Golf, Travel, Photography, Woodworking, Classes, Etc.)

Fitness Center Costs

Will you be continuing to help a child with educational expenses? A dependent parent?

There is no single answer to the question “What percentage of my preretirement income will I need to continue my standard of living?” The “experts” project 65% to 85% of your preretirement income will be needed to maintain your current standard of living but your personal circumstances could dictate a very different figure.

Try living on your retirement income (fudge expenses related to work which you will not have parking, commuting costs, etc.) for at least one year before you retire.

Be sure you compare net to net or gross to gross not net salary to gross pension.

Where will it come from?

Financial Planning

It’s never too late to plan for your retirement. The American Savings Education Council can help you make a ballpark estimate of the savings you’ll need to retire.

1. How much money will you need each year after retirement? $ ____________
   Note: At least 70 percent of your current annual income is needed just to maintain your lifestyle, experts say. *

2. How much annual retirement income can you count on?
   < Your FERS pension +$ ____________
   < Annuity Supplement/Social Security at age 62 +$ ____________

To estimate the amount of your annuity supplement, go to ssa.gov, click on Retirement Benefit Estimate. You will be able to click on:
   (1) Quick Calculator
   (2) Online Calculator, or
   (3) Detailed Calculator;
Click on the online calculator, enter your FERS covered earnings, make sure to show zeros for the years after you retire from FERS. After you have calculated the reduced Social Security age 62 benefit, multiply it by a fraction based on the number of years you were in FERS (not including any military service years) placed over the number 40 (i.e., 20/40 = ½). You would be entitled to ½ of the age 62 Social Security benefit calculation as the monthly annuity supplement.

   < TSP Withdrawals +$ ____________
   < Part-time income +$ ____________
   < Other sources +$ ____________
3. Total income you can count on each year. $__________
Add pension, Social Security, TSP withdrawals, part-time income and other sources.

* It is estimated that most people will need 65% to 85% of their preretirement income for a comfortable retirement. The younger you are at retirement the higher the percentage. Considering that people are healthier and more active when they first retire, some retirees will need 100% in the first decade of retirement, 70% in the second decade and 60% thereafter assuming that you have health and long-term care insurance. Remember that your FERS benefit (before any reductions) for a 20-year LEO career equals 34% of your High-3 Average Salary, plus the annuity supplement prior to age 62 and social security thereafter; for a 25-year LEO career equals 39% of your High-3 Average Salary, plus the annuity supplement prior to age 62 and social security thereafter and for a 30-year LEO career equals 44% of your High-3 Average Salary, plus the annuity supplement prior to age 62 and social security thereafter.

4. How much money do you need each year from savings and investments?
Subtract the answer to No. 3 from the answer to No. 1 $__________

What more you’ll need:

5. How much of a savings nest egg will you need? $__________
Multiply the answer to No. 4 by one of the following factors:
- Retiring at 55 = 21.0
- Retiring at 60 = 18.9
- Retiring at 65 = 16.4
- Retiring at 70 = 13.6

6. How much money have you saved so far? $__________
Funds you have accumulated so far in IRA’s, TSP or similar accounts.

7. How much will these savings be worth when you retire? $__________
Multiply the answer to No. 6 by one of these factors:
- Retiring in 10 years = 1.3
- Retiring in 15 years = 1.6
- Retiring in 20 years = 1.8
- Retiring in 25 years = 2.1
- Retiring in 30 years = 2.4
- Retiring in 35 years = 2.8
- Retiring in 40 years = 3.3

8. Amount you need to save between now and retirement. $__________
From your answer to No. 5 subtract your answer to No. 7

The bottom line

9. How much will you have to save each year to reach that goal? $__________
Multiply the answer to No. 8 by one of these factors:
- Retiring in 10 years = .085
- Retiring in 15 years = .052
- Retiring in 20 years = .036
- Retiring in 25 years = .027
- Retiring in 30 years = .020
- Retiring in 35 years = .016
- Retiring in 40 years = .013

To provide a rough projection of what you’ll need to save for retirement, this worksheet makes many assumptions including that you’ll begin Social Security at age 62, you’ll live until age 87 and the real rate of return on savings will be 3% after inflation.

Source: American Savings Education Council