



## Will your money last as long as you do?

by Martin Hopkins | MoneyRates Guest Contributor

*This article is part of a MoneyRates.com series, 10 steps to a comfortable retirement.*

To calculate how much money you'll need to support yourself during retirement, it's important to understand your current budget. This is because you need to be able to project, using estimated inflation, how today's expenses will correlate during retirement.

### How to project retirement expenses based on current expenses

In preparing financial plans for my clients, I assume a 3 percent yearly inflation over their lifetime. A common rule of thumb states that your expenses will be reduced 20 percent during retirement. However, I recommend my clients project their retirement expenses based on 100 percent of their current expenses. This offsets any expenses that may increase during retirement, such as vacation and medical. Any current loans that will be paid off before retirement can be excluded.

We use a useful compound interest [calculator](#) that can help estimate current expenses with compound interest. The following inputs are required:

- Current principal: The present total of your expenses per year
- Annual addition: Not applicable
- Years to grow: Number of years between now and date of retirement
- Interest rate: In this case, 3 percent per year
- Compound interest: "1" time annually
- Make additions: Not applicable, so "start" or "end" are fine

### Will my income match my expenses?

The next step is to determine anticipated income. Most likely sources of income are:

1. Social Security income: The annual statement you receive from Social Security Administration provides estimated Social Security income projections at various retirement ages.
2. Pension income: Your employer should be able to provide you with an estimate for your retirement age.
3. Investment income: Financial planners typically advise their clients to plan to withdraw 4 percent to 4.5 percent of their investment capital. Assume that your investments will grow more than 4.5 percent per year. Your annual withdrawals should not reduce your investment capital throughout your retirement.

To calculate how your investments will contribute to your retirement income, make a projection of the value of your total investments at retirement. Go back to the compound interest calculator and use the following inputs:

- Current principal: Present total value of your investments
- Annual addition: Amount added annually to your investments
- Years to grow: Number of years between now and date of retirement
- Interest rate: Use a conservative projected return of 5 percent per year
- Compound interest: "1" time annually
- Make additions: At "end" of each compounding period

When you know the projected value of your investments at retirement, calculate 4 percent to 4.5 percent of this total to withdraw for living expenses. Add this to the first two items above to get a total retirement income amount.

Congratulations, you now have a good idea of your retirement expenses and the amount and sources of your income. It's important to update these projections at least annually.

I strongly recommend the services of a Certified Financial Planner™ trained in various disciplines that impact any future financial calculations, taking into account vital elements such as tax and life, disability and long-term care insurance.

In engaging a financial planner, consider one with a CFP® designation who is a fee-only investment advisor. A good place to search is [www.napfa.org](http://www.napfa.org).

Read more financial advice from our series, [10 steps to a comfortable retirement](#).

### About the Author:

Martin Hopkins, CFP®, is president of Hopkins Investment Management in Annapolis, MD. He has 30 years of experience in the field of personal finance, including 17 years at the financial law firm he founded in his native South Africa. A Certified Financial Planner™ as well as an attorney, Martin earned his LLB and a bachelor of commerce degree from the prestigious University of Natal in Pietermaritzburg, South Africa.

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