Financial Resources

Study after study shows that fewer than half of consumers ever turn to a living, breathing professional even one time to help them plan for retirement. The majority do the highest of high-stakes number-crunching on their own, or sometimes do no preparation at all. The good news for do-it-yourselfers: You have more resources and more sophisticated tools than ever to help you do retirement planning on the Internet with just a few strokes on your keyboard.

Up until a few years ago, there weren't many decent Internet retirement calculators, and those that existed weren't very comprehensive or didn't let you make your own assumptions about investment returns or inflation. Today, some of the most reputable companies, from Bloomberg to CNN, are offering free online access to sophisticated retirement calculators. Even people who work with an adviser can't resist playing with these online toys occasionally. Everybody has fooled with them. We're not saying that even the best retirement calculator can substitute for a sit-down with a professional, but if you're going to rely on an online retirement calculator, here's what you need to know:

Be realistic about your expected living expenses in retirement. Many pundits, and online calculators, tell you to count on needing about 70% of your pre-retirement income after you retire. The rationale: You won't need as much for gasoline, clothing and on-the-go meals, and you'll probably have your mortgage paid off by the time you retire (right!). The reality: Many people spend just as much in retirement as they did when they were working. To start a real retirement plan, people need to draw up a true budget. Once someone decides what he can get by on in retirement, he needs to practice living on it. That test drive for a couple of months will show whether it's a realistic estimate.

Some retirement calculators, and some advisers, assume you'll never touch your principal. Oops. It's unreasonable for people to assume they can live off interest alone. Figure out how much you can afford to withdraw each year without running out of money. A good starting point, most experts agree, is 4%.

Don't save too much for retirement. People should not save every dollar they have for retirement if it's keeping them from paying off expensive debt. People are held hostage by their debt. It's costly both financially and psychologically. Getting out of debt as quickly as possible, and long before retirement, should be a more important goal than stashing every dollar into a retirement account.

Be realistic about investment returns. What kind of shape will you be in if the stock market returns 10%? What if you average returns of only 4%? It's best when playing with retirement calculators to consider various scenarios. While the stock market since the Great Depression has averaged 10% a year, many experts believe the 21st century is different and say returns going forward will be much lower. Many experts agree that 7-8% isn't out of line. But what if it’s 4%? Or less?

Don't beat yourself up. If the calculator tells you that you need to save 10% and you can afford to save only 5% right now, that's OK. Don't let that upset you or keep you from starting to save. Starting NOW is better than waiting.

Count on living a long time. While the average life expectancy may be in the mid-80s, don't hang your calculations on that. You should look at how long your money will last if you live to 95 or 100, he said. After all, you don't want to be sorry you'll still alive because your money expired before you did.

Decide whether you want to plan on exhausting most of your money or leaving any of it to heirs or charities, or me.

Allow for big-ticket expenses in retirement. Make sure you've accounted for how you'll pay for adequate health-care coverage in retirement. Medical expenses can derail the best retirement plan. Right now we have medicare. What happens when the next batch of Congressional cost cutters decide in their infinite wisdom to slash it? Also allow money for home repairs and other emergencies. While you may replace your roof only once in retirement, there's no such thing as a one-time expense because there's always something, like the water heater or garage door.

Allow for unexpected surprises now. Some financial planners say people should subscribe to the adage of stashing away 6 to 12 months' worth of living expenses in an emergency fund. They say you should do this even if it means cutting back on retirement contributions. At the same time, tally your liquid assets. Meaning, if you got laid off or encountered a crisis, what could you sell for cash within 30 days.

Try out several retirement calculators. Don't hinge your entire financial future on one Web site. At the very least, pump the same number into several reputable calculators and see how they compare. Don’t blindly pick the one that gives you the highest chance of success, you may end up on the short end of the stick.

Don't panic. If you don't like what the calculator tells you, remember that you can make a decision to save more or delay retirement or work part time in retirement. If you are taking the time to punch numbers and fret, that in and of itself is probably a good sign. The people who are the most worried about retirement are often the best prepared.

Know when a keyboard and screen aren't enough.   Even a quick session to double-check an online calculator and talk over some issues on a one-time basis with a fee-only financial advisor or knowledgeable friend may be all of the help some people need.

Make Sure Your Retirement Calculations Include Whether You:

- Should expect your wages to increase.
- Can include or exclude Social Security benefits.
- Can pick your own inflation assumption. 3% is the historical average.
- Can pick your own investment returns. 9% is the historical norm but overly optimistic today, experts say. Go for 6-8%.
- Consider whether you can contribute more or less toward retirement.
- Can change your retirement age and life expectancy.
- Can input existing savings.
- Can decide how much income you'll need in retirement.
- Want to leave any money to heirs.

Some of the Best Retirement Calculators:

MSN Money Central: Simple but thorough. Interactive and easy-to-understand results.
moneycentral.msn.com/retire/planner.aspx

DinkyTown: Yes, the name sounds weird, but it's great and easy to use.
dinkytown.net/java/RetireShort.html

Bloomberg: Interactive graph shows relation between income and expenses.
bloomberg.com/invest/calculators/retire.html

Yahoo! Finance: Shows what percentage of income you need to save based on your expectations.
finance.yahoo.com/calculator/retirement/ret-02

CNN Money: Considers both you and a spouse.
cgi.money.cnn.com/tools/retirementplanner/retirementplanner.jsp

AARP: Bigger font is good; includes spouse.
sites.stockpoint.com/aarprc/wm/Retirement/Retirement.asp?act®FC¯LOGIN

John Ameriks, senior investment analyst for Vanguard Group, says no financial calculator can predict events that could affect your retirement, such as future tax rates, stock market returns, or how long you'll live. The calculators offered by Vanguard and other financial firms are useful, Ameriks says, because they illustrate the power of compounded savings and the importance of starting to save early.

As for inflated projections, financial firms and planners say there are plenty of reasons to adjust savings targets on the high side — notably the rising cost of health care. The downside of not saving enough is much more dangerous than finding you denied yourself a couple of luxuries during your lifetime.

Other Reasons Most Planners Say to Err on the Side of Saving More

Not Less:

- Increased longevity. If you retire at 65, there's a good chance you'll spend at least 30 years in retirement. For example, the average life expectancy for a 65-year-old woman is 86, but about half of women will live longer, according to the American Academy of Actuaries. Nearly 20% of women will live past 95. Some financial planners assume their clients will live to 100 when projecting how much money they'll need to retire.
- Family obligations. Some retirees are providing financial assistance for their elderly parents. Meanwhile, some boomers are also extending financial support to grown children who have moved back home with their own children.
- Health care. The average 55-year-old who plans to retire at 65 will spend more than $200,000 on medical expenses not covered by Medicare. That amount could increase if Medicare benefits are reduced. A recent government report predicted that the trust fund that supports Medicare will be exhausted in 2018.

What's the Direction to Go?

Such uncertainty is the crux of the challenge facing aging boomers. Research has found that older boomers are faring better financially, on average, than their predecessors. But earlier retirees didn't face potential cuts in Social Security and Medicare and the disappearance of company pensions. Just because boomers are better off than previous groups doesn't mean they're going to be better off when they're 90. Some advice to boomers who wonder whether they've saved enough? When in doubt, work longer and keep saving.