Three Retirement Budget Mistakes

Today focuses on mistakes than can pop up when you're creating a retirement budget. Our reference for this is a Motley Fool article from April 2019, "3 Reasons You May Be Miscalculating Your Retirement Income Needs." Let's address each reason and then determine some ways to avoid these common mistakes.

You've likely been told that you need to determine your retirement expenses so you can create a plan that adequately addresses them. However, accurately forecasting the future can be challenging. Think about your TV weather person's plight. They often get blamed for forecasts that prove to be inaccurate.

However, according to SciJinks.gov, an educational website. Seven-day forecasts accurately predict the weather about 80% of the time. Five-day forecasts accurately predict the weather roughly 90% of the time. Even with accuracy like that, the audience usually only remembers the wrong forecasts. Much like a weather forecast, it's likely that your personal financial forecasts will be 80 to 90 percent correct.

Today we'll focus on a few things that can fuel that inaccurate 10 to 20 percent.

The first mistake mentioned by Motley Fool is recency bias, or the idea that it's easiest to remember things that have happened recently. Accordingly, when creating a retirement budget, many people assume that their expenses are going to stay the same. But things often change as you age. You may need to pay someone to do work around the house that you used to handle yourself. You may find that you spend less on gas but more on utilities. Because you can't predict exactly what expenses will change, it's a good idea to build some wiggle room into your budget.

Boredom is another factor that can affect your retirement budget. During your working life, you likely spent 40 or more hours each week on your work. Work is relatively inexpensive. Even accounting for the cost of commuting, whether by car or public transportation and the occasional business lunch, most of your time was occupied with work responsibilities.

In retirement, those 40-plus hours now belong to you. It's something that most soon to be retirees are looking forward to. However, it can also lead to boredom. That's a lot of calendar time to fill. It's likely that you'll be spending more money to fill some of those hours. Even if your hobbies and interests are inexpensive, you'll likely spend more money than you initially expect.

In fact, a NerdWallet.com article from May 2018, "Let's Get Real: What an Average Retirement Costs" , the average retiree household spends almost as much on entertainment as households in the 25 to 34 age bracket at nearly $200 per month. And that doesn't include food, which averages $483 dollars per month for retiree households. That gives you a monthly average of nearly $700 for food and entertainment each month in retirement!

The final reason you may miscalculate your retirement budget, according to Motley Fool, is inflation. It's a common thing that many retirees overlook when creating a retirement budget. Perhaps your monthly utility costs are $100 a month today. Due to inflation, that cost is likely to increase, just as everything else will. The one thing that will not increase with inflation, is your month income, so you will feel your budget covering less and less.

According to an April 10, 2019, Bureau of Labor and Statistic's news release, the Consumer Price Index for all items increased 1.9% in the 12 months ending in March 2019. If you assume a 2% increase every year, and a 20-year retirement, those utility costs could rise from $100 today, to nearly $150 in 2039. That's a big increase in just one category of your budget. Imagine how inflation could change your overall picture.

Inflation, the cost of boredom and rising financial expenses are just three places a retirement budget built around a sunny forecast can suddenly be faced with unexpected rain. Working with a financial services professional may help you avoid these budgeting mistakes.

Sources:

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