

## Get Your Finances in Order

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### **Retirement income vs. cost of living**

As I look back now on how things were as we were approaching retirement, I realize that I agonized too much over our future retirement finances. I probably recalculated our potential pension, 401K, interest, and social security income at least monthly, for multiple possible retirement dates. Along with that I also recalculated our estimated income needs. However, it did give us confidence that we were going to be OK when we did finally retire.

The rule of thumb for retirement income is that you will need the same income as before retirement if you wish to maintain the same lifestyle. That is true even in rural settings. That sounded a bit frightening to us. Our post retirement income was going to be significantly lower than my pay before retirement. Fortunately, we eventually realized that what counts is **net** income before versus net income after retirement.

Before retirement we were making mortgage payments and putting money into a savings account each month. My paycheck had the required state and federal deductions for things like workers compensation and social security plus a large deduction for our 401K fund. Those things don't apply after retirement. When analyzed that way, our before and after retirement net income difference became much smaller. That put a smile on our faces.

We also realized that another mitigation factor for the pre-post retirement income differential was a cost of living difference. The rural Midwestern cost of living is about 75% that of the part of California we were leaving. With that figured in, we were confident we would have adequate funds for a comfortable retirement.

Property prices, tax rates, and overall cost of living vary widely from place to place. That is a factor well worth considering. Some states even offer both income and property tax breaks for low-income senior residents.

All those financial factors can help folks to enjoy a comfortable rural retirement lifestyle with relatively low retirement income.

Ultimately, how much money you have available for your move to a rural home and how much income you have to live on once you are there depends upon what you have done years ahead of time. If you have not accumulated a nest egg in the form of retirement savings or equity in a house or property, you will likely not have much money to work with. That will limit your choices after retirement. If you have not made arrangements for at least a modest retirement income, you may be in for some tough times ahead. Rural retirement can provide opportunities for a successful low-income lifestyle but few of us would be happy with a scruffy backwoods hillbilly existence.

## **Estimate your retirement income potential**

I am going to assume, for the purposes of this chapter, that you have not yet retired but are considering doing so within the next few years. Most of us have access to retirement financial planning services. I am also assuming you have taken that planning information to heart and begun getting your finances organized for retirement.

You should already have a ballpark figure for your retirement income potential for the date you would like to retire. If you don't have this worked out, do it now. There are many tools available to help you calculate this number. One obvious possibility if you know of no others is to check with your local bank for advice on this and other retirement subjects.

As mentioned above, estimating your post retirement net income by scaling down your pre-retirement wage amount may not be accurate. There may be factors such as no longer having to pay Workman's Compensation,

Social Security, and 401K contributions that can improve your retirement financial formula.

Knowing what your income will be during retirement will help you scale your expectations. Successful retirement requires that your expectations match your finances. That does not, however, mean that you simply lower your standards if your post retirement income is lower than you hoped. It means that you may have to broaden the range of what you might consider desirable retirement situations.

### **List your retirement expectations**

Accumulating resources for retirement is only half of the retirement equation. The other part is figuring out when you have enough. While it is probably safe to assume that few people would object to having more than enough money, knowing how much you will really need will let you know how much longer you must wait before being able to retire comfortably. Most of us would like to retire earlier than later. There are several steps you can and should take to work out a projection for your retirement financial needs.

You must begin to decide what you want to do in your retirement. This may not be as simple as it sounds. Most of us have a general feel for what we are interested in. The details usually exist as a collection of idealized images. Your job will be to take those things and produce a concrete list.

It has been quite a number of years since we made our list but as I remember it looked something like this:

- 1. We want a low stress rural lifestyle.*
- 2. We want to watch wild critters.*
- 3. We want a mild climate with greenery in the summer. Four seasons as in the Midwest is OK.*
- 4. We want open water, in the form of a lake, river, or pond, to play in or on during warm weather.*
- 5. We want a comfortable house but don't need a mansion.*
- 6. Relocating to another state is OK.*

*7. Once we are settled in, we want to occasionally travel to visit friends and relatives, and to see more of the world.*

As you can see, our list is fairly general and somewhat simplistic. These items do, however, narrow the range of possible retirement locales, allowing us to better estimate land prices and tax rates. Deserts are out. Urban and suburban locales are out. The northernmost and southernmost states are all but eliminated. Fortunately, that left the generally less expensive Midwestern ‘flyover’ states.

In making your own version of this list, it is critical that couples be completely honest with each other. This is the time to work out what your future will look like. Unless both of you are happy, neither of you will be happy.

This is the time you think about all the daydreams about things like living in a little cottage in the woods, or canoeing down a wild river, or maybe fishing off your own porch. You may or may not be able to find all of the things you have dreamed of, but why not try? You just might be surprised. Sometimes compromises are alright too. If instead of finding a place where you can fish from your porch, you found a place where you can fish from the dock on your own private lake, do you think you would be badly disappointed? That is what happened to one of our neighbors. You never know what you will find until you start looking.

One of the saddest mistakes retired people make is to build their ‘dream home’. Often this results in an older couple living in a 4000 to 6000 square foot house that would be best described as a mansion. The attendant maintenance and heating costs along with the monthly loan payments impact their lifestyle badly. Unless you plan on having a housekeeper, you could be a slave to just the housework in your dream home. Consider building or buying a home you would find comfortable to live in. A house is really just a place to live while you enjoy a rural lifestyle.

## **Rationalize your dreams with your finances**

It is probably best to begin with the assumption that you will be transitioning from a higher to a lower dollar lifestyle when you retire. Most of us retire to a fixed income status. Inflation and increased medical costs as we age tend to erode our retirement financial resources.

As you examine your retirement options, you will no doubt discover that there is a range of possibilities. You can retire earlier if you are happy with a modest retirement lifestyle, or you can retire later and live a little less modestly.

A key goal for retirement finances, if you can at all swing it, is to begin with no money owed. That is so important, I am going to say it twice. **Begin retirement with no money owed!** That means that you have no loans to pay off. That allows you to use all of your retirement income for retirement living. This may seem to be an impossible goal after a lifetime of house mortgage and automobile loan payments. It may be difficult but it is worth attempting. There are several things you can do to achieve this status.

One of the best ways to avoid monthly loan payments is to pay for things as you go. Buy only whatever you can afford at the moment. This is not always possible but it is a worthwhile goal. For high cost things like buying new property, you can obtain a loan for the property that you will pay off entirely with the money you receive from selling your pre-retirement home. However, in many parts of the country, undeveloped land is often cheap enough to buy outright.

The effort to avoid monthly payments should not be mistaken for a license to use up all of your savings and home equity money. You should keep money available to cover emergencies. How much you will need is difficult to quantify. Keeping an amount available equivalent to a couple years of your retirement living budget is probably a good start. More is better. If you must choose between loans to pay off first, choose the ones with the highest interest rate.

Perhaps the best way to help achieve a zero debt retirement is to consciously rein in your pre-retirement expenditures. Don't just live within your means, live a little below it. Don't put off enjoying your life waiting for retirement but keep accumulating resources.

## **Lessons learned about retirement finances**

- 1. It really does take as much money to maintain the same lifestyle after retirement as before. Luckily, moving to the country is a different lifestyle.*
- 2. Adjusting to a retirement budget was easy. We panicked when we retired so cutting back happened automatically.*
- 3. It is possible, especially living a rural lifestyle, to enjoy life without spending lots of money.*
- 4. It is OK to spend SOME of that money you have been saving all your life for retirement. You're retired.*