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The Top Retirement Calculators And How To Use Them To Accurately Predict Your Retirement

Dan Eggertsen: Hello everyone. This is Dan Eggertsen. I'd like to welcome everyone to the call. I'm here with my father, Karl Eggertsen today. How you doing Dad?

Karl Eggertsen: Doing good Dan.

Dan Eggertsen: Well good. We've been getting a lot of questions having to do with retirement calculators and it looks like there's a lot of people that are trying to determine what age they can retire and/or if they're going to have enough in their retirement fund to retire in the first place. So let's just take the top three questions we kept getting over and over Dad, and we'll answer these for the folks okay?

Karl Eggertsen: Okay I'm ready to go Dan.

Dan Eggertsen: All right. The first question is, "What's the best way to determine when I can retire?"

Karl Eggertsen: Okay well that's a really great question and an extremely important one for everybody to start thinking about and asking that question and looking to answers for it as early as possible. Once you're through college, once you start a career, whatever your life path is, at least in your 30s if not before because the more time you have the more time you have to plan and adjust and prepare with savings and investments in the right way.

The fact is, today it's the age of planning your own and owning your own retirement. Social Security is being reduced and probably will be reduced more, traditional pensions are in decline and companies are much less likely to be taking responsibility and any risks associated with having pensions in the past that they provide to their employees. So Americans are more and more, having to take charge.

Dan Eggertsen: Right.

Karl Eggertsen: Traditionally there have been many options and fortunately there are many options to help with planning and preparing and managing your retirement. Retirement

calculators, that's kind of really coming to their own. There are just many, many retirement calculators online. Some are good, some not so good, some cost money, some don't.

I fortunately was able to find a really good well scoped out list of the very best calculators on the Internet. Forbes Magazine did a detailed study of retirement calculators and retirement tools and they identified the best of the best. There was only about six or seven that were listed and two of them were free. They happen to be outstanding companies and I've tried these calculators.

I've been using them just the last couple of days and I think they're superb. They're complimentary and they operate with some different mechanisms to calculate. They use some slightly different approaches but very similar and I think they're both valuable. So these are the two in particular that I'm talking about. The very best calculators out there are the Vanguard and the T. Rowe Price retirement calculators.

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Now retirement calculators what they do is, they can give you an estimate of the odds of meeting your goals. They provide really valuable insights to help you see if you're on track and to improve your prospects for being ready when the retirement times come. They also can give you, not only preparing for and planning for retirement but living in it. There's one of these calculators you can actually use to see how you're doing and see how long your money's going to last with your specific spending and income and the way you're invested you know, your asset allocation.

Dan Eggertsen: Right.

Karl Eggertsen: Specifically they will give you probabilities of meeting your financial goals, given your contributions, your savings, the amount you have in savings and the contributions you're making to it, your investments, what type of investments you have and it can give you a projected retirement income based on that. It also will give you alternatives and tradeoffs if it appears that you're going to come up short.

Dan Eggertsen: Right.

Karl Eggertsen: For example, how various increases in savings can dramatically affect retirement income, it can tell you that. It can tell you how decreases in spending can improve your probabilities of meeting your retirement goals. Other options are hiring a financial planner. If somebody feels that they need some help for specific purposes like, a person could be too busy, or they don't like working with numbers, or they have a really complicated situation they need help with, or they just need some moral support and guidance.

You can also do this over the phone if you don't need the hand holding so much, the person to person but over the phone. Some of these companies like Vanguard or T. Rowe Price have very reputable, they have some very qualified people that they can, you can talk to people over the phone and they could follow up with a written plan based on your phone conversations.

So there's a lot of ways to do this but I think regardless of using any of the pros, I think these calculators are invaluable for the individual to have with them at all times and they can run options, tradeoffs as their life changes instead of having to go pay a financial planner to look at any changes or any things you're planning to change.

You can do it with a calculator and get a pretty good idea about where you are and what you need to do. So I think the calculators can go a long way in helping somebody understand and help them determine - what is the best way to determine when you can retire.

Dan Eggertsen: Right. Okay Dad. Great. I think you probably touched on the second question here but let's see if we can add to it or summarize it. The second question is, "Can you help me find some tools that can help me calculate when I can retire?"

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Karl Eggertsen: Yeah there are a number of tools. What I chose are the ones that are considered among the best but they're also free. You can go right onto the web, right onto the Internet and search for retirement calculators, or you could specifically search for Vanguard retirement calculator and specifically search for T. Rowe Price retirement income calculator.

Or you could just search for retirement calculators and you'd probably see both Vanguard and T. Rowe Price listed somewhere on the list on the first page that you come to after you do your search for retirement calculators. I've tried them. They're rated the best by a very reputable organization and I think that they're very good.

Eventually somebody might try these and may want to try some of the others too. It doesn't hurt to try a number of them to see how they compare and to see what you're most comfortable with. But these are also very easy to use.

Dan Eggertsen: Right.

Karl Eggertsen: And they don't require a half an hour of inserting data. Within a few minutes you can basically insert the data and run the calculations and get your answers. You can go back and change things and see what it does for you. They're both easy and they're both free. Here are the kinds of things they consider for example; your household income – now this is like tools to help you calculate when you're going to retire – you can insert your household income, you can insert your income goals, your income retirement goals, your Social Security benefits, any pension income.

They will look at what you have saved and what you have invested and how you have it invested like asset allocation, how you have your investments broken down into stocks, bonds, and so on which will tell them what type of returns one could expect over the years. Current retirement savings balance, they can look at investment returns based on your asset allocation, years until retirement and the years you expect to be in retirement.

So they look at all these things and then these calculators can provide the retirement assets that will be needed at retirement, the current savings that would be expected to have at retirement, your retirement income real needs and the income you will actually expect to have at retirement. The results will be, it'll say that you're on track with a 90%, 99% probability, whatever they tell you or if there's a shortfall, they'll tell you exactly what the shortfall is.

They'll say, "Here's how much you have in savings and income and here's what you're going to need." So what you can do is they tell you the kind of things you could do. You could change your asset allocation, become a little bit more aggressive if you're going to be coming up short. You may need to contribute more, reduce your expenditures on your more luxury, discretionary income and start saving more and they'll tell you how much more you need to save every month more. Or you can come up with other alternatives as a result of that. You know you can see the value of this. I was kind of going through how the Vanguard calculator would work.

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It's an extremely good preretirement calculator and it really goes through the historical average of investments and it comes up with some estimates very quickly and then you can go back and change a few things, "Okay if I spent less here and I increased my savings here this..." and then you get the results and you could see what you need to do to meet your retirement goals in the coming years. So anyway I think that kind of helps I think to answer the question about a tool to help calculate when you can retire.

Dan Eggertsen: And the top two are the T. Rowe Price and the Vanguard right?

Karl Eggertsen: Yeah. I was kind of going through both of them but the one I was looking at, key non-specifically was the Vanguard for this particular one because it seems to be particularly strong for doing the 'what if' tradeoffs and options because it calculates very quickly and you can try different combinations of spending and income and asset allocation changes and things like that and it helps you get a pretty quick handle on how to get on track to meet your goals while you have time to do it.

When you're in your 30s and you're looking down the pike 25 years or so before you might want to retire, it tells you how you need to change your financial life from spending and saving and investing so you can have the best chance, the best probability of meeting your goals on the day you retire and that you will have what you need to live the way you want to live.

[12:29.0 – 12:35.3 cell phone]

Dan Eggertsen: All right Dad. Well excellent answer to the second question. Now I'm wondering, these tools that you mentioned, can they also address this third and final question which is, "I'm worried I won't be able to stay retired. Is there an easy way to calculate how many more years of retirement I can support before I need to find some more income?"

Karl Eggertsen: Yeah that's what you call a real time question. You're in the middle of the water and you're swimming and you've got so many years to live in retirement, and no matter

where you are, I think the T. Rowe Price calculator would be the one that I would look at, you know one of the first calculators I'd use to look at to look at the probability of best meeting your goals in retirement and whether that money is going to last you as long as you think it's going to need to last you.

So the T. Rowe Price calculator, it takes a look at your total retirement savings value, you know how much you have in your savings that you've accrued. It takes a look at other income sources that you might have like Social Security, any pension, any 401Ks that type of thing, any other sources of income, it could be rental income from a rental property whatever, and then looks at the rate of spending and then it even looks at asset allocation, you know what your asset allocation is. It's kind of one of these bar things where you can adjust the asset allocation to where you are right now and then you can move it around if you need to try different what if scenarios.

Dan Eggertsen: Right.

Karl Eggertsen: Okay so once you insert all of this it runs what they call a Monte Carlo Simulation. Monte Carlo Simulation is a computer run simulation that runs hundreds if not thousands of different economic market environments to see what the probability is across all of these possible environments that you could be faced with while you're in retirement, that your portfolio could be faced with and it determines the probability of lasting, how long it's going to last.

Ideally I'd like to see about 90%, if not 95%, 99%. But it's a way of looking at the probabilities of the money lasting you and then it comes up with answers and recommendations. If you're going to come up short it tells you and it tells you how much. Here's one that I ran just last night. It said, "We suggest reducing what you withdraw from your personal savings by X amount of dollars per month. You may also want to make other changes." Other changes could be like changing your asset allocations, you know make it more aggressive.

It could be lowering your spending which was suggested here is, "Withdraw from your personal savings less per month." It could be finding other sources of income. If somebody is really coming up short and they can't seem to make it work, they could go to work part time. At least you're going to know ahead of time. You could get a reverse mortgage on your home. You could move to less expensive digs.

These are the kind of things that this calculator can help you with. Hopefully if one wants to stay completely in retirement that they can make some adjustments on their spending and asset allocation and find some other sources of income if that's possible. But that's the kind of thing that this calculator can do for you. And it'll give you a heads up as to whether you're going to be able to stay in retirement or maybe you need to do something right now before it's too late to buttress up your retirement account somehow with more income or just start spending less.

Dan Eggertsen: Right.

Karl Eggertsen: Okay?

Dan Eggertsen: Excellent Dad. Well thanks for covering all three of those so thoroughly and I think everyone will be glad with the answers. You really helped out a lot. I really appreciate your time Dad.

Karl Eggertsen: Okay thanks Dan.

Dan Eggertsen: And thanks for everyone being on the call.

Karl Eggertsen: Oh yeah. Thank you. Bye.

Dan Eggertsen: Bye. All righty.

[17:16.5]