

Calculated risk

Online retirement-planning tools can be useful, but only if you're careful

By [Andrea Coombes](#),

Dec 11, 2006

SAN FRANCISCO (MarketWatch) -- It is the best of plans; it is the worst of plans. That sums up my retirement-savings situation according to a variety of online calculators into which I plugged my numbers recently.

After entering my current assets, savings rate and a few other variables, one calculator congratulated me with "You're meeting your retirement savings goal!" while another tool gave me a relatively low score of 92 in retirement readiness, with 100 being the ideal. Yet another said I need to bump up my retirement savings by another \$23,000 each year.

There's no shortage of quick-and-easy online planning tools offering to tell you within minutes whether you're saving enough for retirement. But are they steering consumers in the right direction?

Some online calculators are useful as a check-up, says Sheryl Garrett, a certified financial planner and founder of the Garrett Planning Network, in Shawnee Mission, Kan.

"I strongly encourage people to use them," Garrett says. They're "useful tools, but just like any tool, if not used faithfully and appropriately you could hurt yourself. These are like power tools -- there's electricity, and sharp blades involved."

Dangerous assumptions

The danger lies in the slew of assumptions the calculator uses or asks you to input, including guesses about life expectancy, average return and expected retirement expenses. Adjust any of these variables and you'll see a big difference in the dollar figure you need for retirement.

So, when using online calculators, put in appropriate assumptions. If you can't override the calculator's assumptions, or it's unclear what assumptions are embedded in the tool, use a different calculator. For instance, if the calculator assumes you'll live to age 83, it makes sense to override that and enter 90 or higher. (Garrett recommends using 99 or 100.)

Half of retirees will live beyond the standard life expectancy that many calculators use. "Half the time you're going to outlive your retirement savings under that model," said Jack VanDerhei, a professor at Temple University and a research director at the Employee Benefits Research Institute.

Target practice

Others say you should avoid online calculators altogether. "Financial planning is much closer to rocket science than [to] playing marbles or bingo," says Laurence Kotlikoff, an economics professor at Boston University. "You need to ask people to spend enough time, at least half an hour, to get a full check-up, to provide you with the inputs that are needed to give them a decent recommendation."

One problem, he says, is that many tools lead people to overshoot the target -- and that mistake then compounds over years of saving. "You may be told to save a whole lot more than you should," he said. "They're giving extremely bad advice. I think it's a form of financial malpractice."

Kotlikoff has developed his own tool, ESPlanner, available at ESPlanner.com for \$149, based on an economic theory that aims to smooth a person's living standard over time, rather than aiming for a specific dollar figure in the future.

It's all in the numbers

Meanwhile, VanDerhei recommends using tools that allow for annuity income, because that guaranteed monthly income helps to offset the risk of outliving your assets. EBRI's Ballpark Estimate on the ChooseToSave.org Web site allows you to enter annuity payments under "other retirement income."

To offset the "risk" of a long life, you can either save up for an extra decade or two in retirement, he says, "which is going to be incredibly expensive" or you can save a bit more than you would for an average life expectancy and then buy an annuity. "That will let you hit that 75% or 90% chance of having adequate retirement income [and] for much lower retirement savings than if you try to do it on your own," VanDerhei said. Still, he said, annuities aren't perfect -- you could die the day after buying one and, unless you bought a feature to offset this risk, none of that money would go to your heirs.

Another assumption to watch: Average return on investments. Garrett suggests using 6% to 8%. Also, before using an online calculator, find your annual Social Security statement or go to the Social Security Administration Web site at SSA.gov to estimate your expected Social Security benefits. Plug that number into the calculator. Otherwise, the tool may offer an estimate that's way off, based solely on your current earnings.

What's out there

The various calculators' different assumptions are, of course, why they each generate different results for the same scenario. The Nationwide "RetireAbility Check" tool at Nationwide.com gave me a relatively low score of 92, while the TIAA-CREF tool saluted my retirement readiness (at TIAA-CREF.org, go to "learning center," then "tools," then "retirement goal evaluator"). The Ballpark Estimate said I'm fine as is -- as long as I work a little after I retire.

The benefit of online tools is they prompt you to consider what you'll need in retirement. And plugging in different scenarios offers insight into how you can improve your situation. The Nationwide tool is "not intended to solve your retirement-planning issues," said Keith Millner, a senior vice president at Nationwide. "Hopefully, it gets you to do something different than you were before. You can take it multiple times and over a period of time see how changes in your savings or your debt or your lifestyle will change your score."

Garrett particularly likes ChooseToSave.org's Ballpark Estimate because it allows you to enter income from a part-time job in retirement. She also likes the National Association of Securities Dealers' calculator (at NASD.com, click on "investor information," then "tools and calculators"). AARP offers a calculator on this page: http://www.aarp.org/money/financial_planning/ Vanguard offers a free tool under "planning and education" at Vanguard.com, while Fidelity offers free tools at Fidelity.com (click on "MyPlan"), though the more in-depth planning tool requires registration. ■

Andrea Coombes is a reporter for MarketWatch in San Francisco.