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IT DOESN'T ADD UP

With the baby boomer generation now working it's way into retirement, the need for financial planning advice and resources is at an all-time high. More people are reaching retirement age at a faster rate than ever before and many, unfortunately, have no idea if they're financially ready.

Enter the Internet. While the World Wide Web has certainly enhanced the investing and financial planning process, by making research readily available, it can also be a hindrance to the planning process. The Internet is designed to give quick answers, but as it turns out, not every problem can be solved in a matter of minutes.

If you conduct an Internet search for "online retirement calculator," the results will number in the millions. Most of these sites are designed to gather information about your age, income and retirement plans and, with the push of a button, give you snapshot of your retirement readiness. It sounds quick and easy, but are their results accurate?

We decided to put four such calculators to the test. The four we chose are from reputable resources: Kiplinger, American Association of Retired Persons (AARP), MSN Money and Yahoo Finance. Our first observation was the wide range of sophistication among the tools. This led, not surprisingly, to a wide range of answers when we plugged in our hypothetical information. Let's take a closer look.

The profile we entered into the calculators was as follows: A 62-year old man and woman are looking to retire immediately (age 62). They have $1 million set aside for retirement, with a life expectancy for both of 95. Inflation was set at 3%, expected rate of return at 7%. Current income was $80,000 and retirement income $50,000.

Yahoo
The good: Their calculator is the most simplistic, which made it very user-friendly.
The bad: The tool assumed $31,000/year from Social Security and allowed for no additional income.
The ugly: They don't ask if our couple's $1 million is in qualified or non-taxable accounts and gather no information on assets and liabilities (real estate, mortgage, etc.)
The result: The $1 million grows to $1.3 million and our couple, at age 95, has $1.18 million.

MSN
The good: Allowed for income outside of Social Security and investments. It also gave more control over Social Security and linked to a life expectancy calculator.
The bad: The calculator's default fields could easily misguide users. It assumed a life expectancy of 88, which is (coincidentally?) when it has our couple running out of money.
The ugly: Again, doesn't ask if $1 million is taxable or about any assets or liabilities. There's no way to print out the tool or its results.
The result: Our couple runs out of money at age 88. At age 95, they would have incurred nearly $500,000 in debt.

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AARP:
The good: Nice presentation with easily printable results. Allowed for other income and pensions. Allows for a spousal beneficiary for Social Security.
The bad: Doesn't let you indicate beneficiary pension benefits.
The ugly: Lets you enter different rates of return for different time periods, which plays into the misconception that retirees should become more conservative on their investments. Does not ask if $1 million is in taxable or non-taxable accounts and doesn't ask for additional asset and liability information.
The result: The money grows to $1.1 million and our couple spends the money down, leaving nothing behind at age 95.

Kiplinger
The good: The only tool we looked at that asks if our couple's nest egg is currently held in taxable or non-taxable accounts.
The bad: It's the most complex, which means it requires a fair amount of knowledge.
The ugly: ??
The result: Depending on the money's current location, our couple's money will last anywhere from 318 months in qualified plan (to age 86) to 184 months in a taxable account (to age 79).

As you can see, the input requirements, and therefore, the results, are strikingly different. On one end of the spectrum, you get a very easy-to-use tool that is too simplistic to be helpful. Contrast that with a more complex tool that requires more financial planning know-how than the average user likely has.

The bottom line is that retirement calculators might seem as though they've simplified the financial planning process, but with strikingly different results. Because they don't delve as deeply as needed into one's financial status, they are providing nothing but a false sense of security.

While calculators are nice and make the math seem easy, there are times when a situation requires putting pen to paper and investing a fair amount of time and effort to reach the right answer. A financial plan is certainly one of those. Don't look for the fast answer. Look for the right answer by seeking out a certified financial planner that will input and evaluate your individual assets, liabilities, needs and wants in the development of a written financial plan, complete with an Investment Policy Statement. Retirement is too important an issue to have it not add up in the end.

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