

# Budgeting for Retirement



There are all kinds of “rule of thumb” numbers floating around for how much income you’ll need in retirement, but they are just that – guidelines, not hard and fast rules that will necessarily apply to your particular situation. Budgeting for your retirement is a bit of a guessing game however clarifying your goals and expectations will make it easier.

## Reduced Expenses

How do you know what you’ll need to retire? That depends entirely on how you end up living in retirement. If you’re intending to stay in the same place with the same spending habits, then take your current monthly expenses and deduct the things that may no longer apply – things like:

- Mortgage, if you will pay it off before you retire
- Work clothing
- A second vehicle if you won’t need one anymore
- Insurance on the second vehicle
- Gas for commuting
- Starbucks on the way to work
- Lunch out on workdays
- Dinner on days you work late
- Work-related tools (physical tools or software and a new laptop every other year)
- Wage tax if your state has one (although you can still be taxed on Social Security)
- Tax savings from a lower income tax rate

Sounds good so far, doesn’t it? Well before you start celebrating prematurely, there are things that may cost more. That’s where your vision for retirement comes in.

## Budget Busters

You may plan to stay right where you are and do the same things you do now other than going to work. Fair enough. Nevertheless, you may still need to add a few things:

- If you stay in your current home, even if it's paid off, you may have higher maintenance bills over time as the home ages. Little things like paying someone to clean the gutters aren't a budget buster, although a new HVAC system or a new roof could be. Include a set-aside in your budget for home maintenance
- Property taxes also tend to creep up over time. Take a look at your past tax statements and get a feel for the average annual increase. Payout annually for 20 or so years and add the increases into your budget
- Increased medical costs: On average a 65-year-old man will spend \$190,000 for medical needs during retirement; a 65-year-old woman will spend \$215,000<sup>1</sup>
- Remember our gutter-cleaner from above? You may need a lot more help around the house as time goes on in terms of your daily activities, like meal preparation and cleaning. Best to plan for that now
- Is your spouse's retirement income a significant part of your plan? What happens to that income if he or she dies? In the case of Social Security, the surviving spouse has the choice of receiving the higher benefit (their own or their spouse's) but not both, meaning a reduction in total income

Very few people simply stop working without substituting other activities and those other activities often come with a price tag. Clear your mind and think about your "typical day" and "typical month" in retirement.

- Where do you see yourself living? In your house? In an apartment or condo? In another city or even another country?
- What will you do all day? Do you have hobbies or activities you intend to pursue? Knitting is relatively cheap; however, a heavy photography habit can be a budget buster all on its own
- Do you want to travel? If so, where will you travel and how? A personalized tour of the Serengeti is pricey; a high-end cruise can be costly as well. Going to a low-cost destination for a week or two and staying in an Airbnb is much less expensive. Make a list of the places you want to visit and what you want to do there. Research the least expensive ways to do that. Then create an annual travel budget and plug it into your retirement plan

### Think Outside the Box

While doing this visioning exercise, don't limit yourself to your current environment or activities. Think expansively.

You could keep your home for a few years to transition into retirement and then downsize. Or you could downsize first, sell the house, buy something less expensive and put the difference into investments.

Maybe you don't need a house at all. A condo or even an apartment may be right for you. While apartment rents tend to increase over time, they also give you the flexibility to move at least once a year.

Some retirees take mobility to a higher level by selling their house and cars and buying a motor home or boat to live on. While you can spend extravagant amounts on either of those, just as you could on a new home, you can also find good deals on pre-owned. You could save on property taxes and have a high degree of mobility.

An increasing number of Americans are opting to stretch their retirement budgets by moving to an area with lower costs, either in the U.S. or outside of it. The five U.S. states with the lowest cost of living are Mississippi, Arkansas, Oklahoma, Missouri and New Mexico.<sup>2</sup> Although if you currently live in Massachusetts, Oregon, New York, California, Washington, D.C., or Hawaii almost anywhere else you move is probably going to be cheaper than where you are now.

While exact numbers aren't available, the State Department estimates that about 9 million Americans live outside of the U.S.<sup>3</sup> Many expats choose to relocate to save on housing and other costs of living, including medical care. You may be able to maintain a significantly higher standard of living during retirement by moving to another country.

Retirement isn't just a time to quit working; it's a time to enjoy the fruits of all of those years of labor – to open your mind and your horizons to new experiences, people and places. Getting there isn't hard. And with a good plan, you can.

Sources:

1. <https://money.cnn.com/2018/05/07/retirement/expenses-in-retirement/index.html>
2. <http://worldpopulationreview.com/states/states-with-lowest-cost-of-living/>
3. [https://en.wikipedia.org/wiki/American\\_diaspora](https://en.wikipedia.org/wiki/American_diaspora)

*The hypothetical case study results are for illustrative purposes only and should not be deemed a representation of past or future results. This example does not represent any specific product, nor does it reflect sales charges or other expenses that may be required for some investments. No representation is made as to the accurateness of the analysis. The material presented was created by an outside vendor (or third party).*

*Securities offered through Kestra Investment Services, LLC (Kestra IS), member FINRA/SIPC. Investment advisory services offered through Kestra Advisory Services, LLC (Kestra AS), an affiliate of Kestra IS. Kestra IS and Kestra AS are not affiliated with Fiduciary Advisors, LLC or any other entity referenced within this publication.*

ACR#358392 09/20.

