

Third Phase of Retirement

Know How Much You Are Spending

Most people assume that when they are retired they will spend much less than when they are working—no commuting costs, no lunches out, no office gifts, lower dry cleaning bills, possibly even less cost for clothing. In actuality, most retirees spend more in the first five to seven years of their retirement than when they were working. “New” retirees travel more, take up new hobbies or spend more time on old hobbies because they have the time, spend more time and money on grandchildren and frequently start gifting assets to their children. Consider what things will or will not change “expense-wise” after retirement.

How Will Your Financial Needs Change Upon Retirement?

Things You Will Not Pay

- , Retirement Contributions _____
- , Medicare HI Tax _____
- , TSP Contributions _____
(Remember this is your money
not a tax or retirement contribution)

Things That Might Decrease

- , Taxes _____

Federal Tax — there is no guarantee that your percentage rate for federal taxes will decrease.

State Tax — depending on where you are going to reside you may save several thousand dollars a year. Check the details in the State and county you are thinking of moving to, not just the income tax provisions.

- , Commuting Expenses (+ -) _____
(including parking fees)
- , Expenses for Lunches (+ -) _____
- , Expenses for Office Gifts (+ -) _____
- , Clothing Expenses (+ -) _____
- , Union or Professional
Association Dues (+ -) _____

What Things Will Have Additional or New Costs?

- , Survivor Benefit (+) _____

, Health Insurance Premiums will be deducted as if you were employed **except** it will be withheld on an after tax basis. (+ -) _____

, FEGLI/Depending on the basic option you elected and your age if you are carrying Option A, B &/or C. (+ -) _____

These are all associated with employment.

What Else Might Increase Or Decrease?

Will your mortgage be paid off when you retire? If yes great, that's extra money that you will have to live on. But don't forget about property taxes and home-owners insurance.

Do you pay home-owners association fees? Condo fees? If so they won't change.

Do you rent? That cost will be constant or increasing.

Utilities may actually increase.

Auto expenses. It is true that you won't be commuting but you may find that your auto expenses haven't decreased as much as you had hoped.

Clothes. Your clothing budget may actually increase immediately after retiring--depending on what you now wear Monday thru Friday. You probably won't be dressing in a suit every day; you will need a casual wardrobe. (+ -)

Expenses associated with retirement activities (Golf, Travel, Photography, Woodworking, Art Projects, Classes, Etc.)

Fitness Center Costs

Will you be continuing to help a child with educational expenses? A dependent parent?

There is no single answer to the question "What percentage of my pre-retirement income will I need to continue my standard of living?" The "experts" project 65% to 85% of your pre-retirement income will be needed to maintain your current standard of living but your personal circumstances could dictate a very different figure.

Try living on your retirement income (fudge expenses related to work which you will not have parking, commuting costs, etc.) for at least one year before you retire.

Be sure you compare net to net or gross to gross not net salary to gross pension.

Consider tracking your spending in a detailed fashion. Ideally you have routinely compiled a cash flow sheet—income minus outgo. The remainder should be for discretionary investing.

Unfortunately, if you can't put your hands on the remainder you will never invest. Therefore, a catch-all "miscellaneous" category for money you have spent but don't know for what isn't helpful. In an ideal world you would have projected your living expenses and income for retirement and lived on your retirement income for at least one year before retirement. If your world isn't ideal, track your spending carefully in the first year of retirement. If you spend assets too heavily in the early years it can shrink your principal. Once assets have been depleted early in retirement it is unlikely that you will ever regain that asset position.

Make sure when you track your spending that you include the following categories:

- \$ Housing Costs: Mortgage, homeowner's insurance, property taxes, maintenance costs, condo fees and/or homeowners association fees.
- \$ Utilities: Electric, oil and/or gas, phone, cable, internet service, water, sewer, trash collection, snow removal and/or lawn care.
- \$ Personal: Groceries, clothing, laundry, dry cleaning, health and beauty products.
- \$ Health Care: Insurance—health, dental, vision, long-term care insurance premiums, and possibly Medicare B premiums. Deductibles and co-payments for each of these, over-the-counter medicines and supplies.
- \$ Transportation: Auto payments or leases, tags and registration fees, insurance, gas and maintenance.
- \$ Recreation: Travel, entertainment, dining out, movies, cultural events, club memberships, and sporting events.
- \$ Contributions & Gifts: Charitable contributions as well as gifts to family members.

Again, if you end up with a sizable amount in a miscellaneous column, review your spending on a more current basis. No one can remember what they spent the money they took out of the ATM on January 2nd usually by January 10th, much less by March or later. It is recommended that we each carry a notebook and jot down everything spent and when you spend it—this sounds like good advice, but very few people do it.