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Go the Distance: Financial Considerations for Each Stage of Retirement

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Saving for retirement can be a daunting task – you must save an indefinite amount of money for an uncertain number of years, and expenses can vary widely as your golden years roll on. August's Wealth Management Insights explores three distinct phases of retirement, their unique budgeting considerations, and how you can plan ahead for the retirement you want.

While life may slow down in retirement, spending doesn't always follow the same trajectory. Careful planning and disciplined budgeting are key.

*– **Tim Steffen***
Director of Financial Planning

What you should know:

1. The first few years of retirement – often called the "go-go" years – may cost more than you expect.

- The first decade or so of retirement can be a very busy, action-packed time. The go-go years can stretch for the first 10 years of retirement, or depending on the personality of the retiree, even longer.
- Many retirees are excited to take advantage of their newfound free time by traveling far and wide, making a "dream" purchase, or sharing experiences with grandchildren. However, an uptick in spending can throw a brand-new retirement budget for a loop. A recent study conducted by the Employee Benefit Research Institute found that nearly 46% of households spent more in their first two years of retirement than they did prior to entering their golden years.[1]
- However, many people want to maintain their pre-retirement lifestyle. Your budget may not automatically shrink simply because you've officially retired – plan on maintaining that budget in your earlier years of retirement.

2. During the "slow-go" years, retirement settles into a familiar rhythm and budgeting considerations shift.

- After the excitement of the go-go years, retirees generally transition to a quieter lifestyle – the slow-go years. This phase often begins in the mid-70s, when retirees may grow weary of long flights, caring for big houses and a fast pace of life. Health issues may become more prominent in these years, too.

- A slower pace of life may translate into decreased spending. In fact, the retirement budget may contract by as much as 20–30% during these years thanks to decreased travel, lower discretionary spending and/or lower living or property expenses.
- However, slow-go retirees may begin to see an increase in their healthcare spending. Because these expenses tend to grow at a faster rate than other costs, inflation becomes a larger concern.

3. Spending may actually ramp up in the "no-go" years, despite a quiet lifestyle and established routines.

- The final years of retirement can be defined by complex and costly realities. Serious health issues, decreased mobility and the potential need for round-the-clock care can translate into significant bills.
- As such, spending may significantly increase during this phase of retirement. Without proper planning, significant healthcare bills may pressure – or deplete – retirement savings.
- Some retirees use this time to lay the groundwork for a lasting legacy, sharing time and money with charitable causes, relatives or heirs. However, retirees should be sure to strike a balance between securing their own financial future and distributing their wealth to others.

What you should do now:

When it comes to retirement, it's not only important to save early and often – it's critical to budget carefully and spend wisely. Your Baird Financial Advisor can help you create a comprehensive, workable financial plan that lets you live out the retirement you want. ■

[1]Banerjee, Sudipto. Change in Household Spending After Retirement: Results from a Longitudinal Sample. Employee Research Benefit Institute, November 2015. Accessed August 2016. https://www.ebri.org/pdf/briefspdf/EBRI_IB_420.Nov15.HH-Exp.pdf