

BUDGETING FOR RETIREMENT



Our recommendation for most retirement savers is to plan on replacing 70-85% of income in retirement to maintain your current standard of living. However, this is a general guideline, and may not necessarily apply to your particular situation. Especially as you approach retirement, it's a good idea to create a retirement budget that will provide a much clearer picture of your retirement needs.

REDUCED EXPENSES

How do you know what you'll need to retire? That depends largely on how you would like to live 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 attire
- ▶ A second vehicle, if you won't need one anymore
- ▶ Gas for commuting
- ▶ Lunch or coffee out on workdays
- ▶ Work-related tools (like physical tools or computer hardware)
- ▶ Tax savings from a lower income tax rate

Sounds good so far, doesn't it? Before you start celebrating, a few things 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. Plan annually for 20 or so years and add the increases into your budget.
- ▶ Plan for 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 \$215,000¹.
- ▶ 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 household 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, state, 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 newfound love of photography can be a budget buster all on its own
- ▶ Do you want to travel? If so, where will you travel and how? 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. 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. 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 vehicles. 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.² 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.³ 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.

WE’RE HERE TO HELP

Have questions? You can reach a BergankDV advisor at no additional cost to you.

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

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).

bergankdv



SCHEDULE A CONSULTATION
BergankDV.com/Educate



EMAIL
retirement@bergankdv.com



CALL
1-844-674-401k