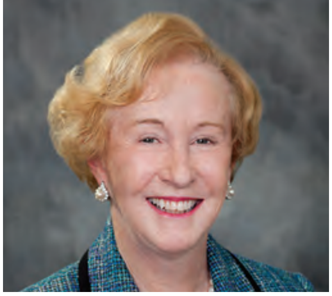

Scaling Back Once Those Paychecks Cease May Include Downsizing Your Home

Adjusting Your Retirement Expenses

by Alexandra Armstrong, CFP

In our last three articles, I've discussed how to estimate what your retirement income and expenses will be when you initially retire. I also talked about adjustments you could make to your income from Social Security as well as retirement and personal accounts. In this final article, I'll discuss ways to adjust your retirement expenses.

Housing

Usually the cost of housing is the major expense for most people, whether they're retired or not. In the first article, I discussed whether to pay off your mortgage when you retire.

This is an emotional (it feels good to be debt-free) as well as a financial (how much tax deduction is it providing you) decision. In addition, this decision is a function of whether you can afford to pay off the mortgage. If you pay off the mortgage, will that leave you enough money for other expenses?

In the first article, I also recommended paying off your home equity loan and auto loans if possible. In the first case if interest rates increase, as I think they will, the payments may become pretty expensive.

In the case of auto loans, this interest isn't tax-deductible, but if you got a super deal on the interest rate perhaps you should keep it, again depending on how much money you have on hand.

When you first retire, you may want to stay in your current home, particularly in this initial phase of retirement. But when you look at your expenses versus your income, you may have to make choices. For instance, you may really want to spend money on travel but find you can't afford to do so.

One solution might be to downsize to a smaller home where the maintenance might be much lower, thus freeing up cash to spend money elsewhere. Another solution might be to rent out part of your home.

Still another would be to do a home exchange with people in other locations (*See my article in the June/July 2012 magazine*).

You might even take the big step of relocating to another state. Some states are more tax-friendly than others. Many of these are located in warmer climates where the cost of food and clothing might be lower. When weighing the merits of such a move, you need to consider more than state income taxes.

You also need to consider real estate and sales taxes and even inheritance taxes. Some states don't tax retirement income.

A good source for looking at all of this information is Kiplinger.com/links/retireetaxmap. If you decide to move, I recommend you try renting there first. A place that might be great for a vacation might not work year-round. You may find that being near family and friends is more important than saving on taxes.

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Finally, on a personal note, if travel is important to you, I urge you to do it while your health still allows. You never know when something unforeseen intervenes and you're no longer able to do so physically.

Reducing Other Expenses

You may find that you need only one car instead of two when you retire. You may cook more at home now that you have more time to do so.

You can travel midweek when air fares are lower. You can drive places rather than flying. You may not need to spend as much on clothing as you did when you were working.

The other expense — often unexpected — I previously warned you about was helping out family members, including your children.

Although it's difficult to do, sometimes you may have to say, "No, I'm sorry, we're unable to help you out." By so doing, you're making sure you don't become dependent on them in the future.

Health Insurance — an Increased Expense?

Most people fail to consider the cost of health care during retirement. Each year Fidelity estimates what these costs might be for a couple age 65 who are retiring. In their most recent estimate released in August, Fidelity estimated that they will need $275,000 for medical costs — mostly to cover Medicare and Medicare supplement premiums, plus the costs Medicare and Medigap won't cover. This estimate was up from $260,000 in 2016. We expect these costs to continue to rise.

If you're very lucky, your employer will supply you with some form of health insurance after you retire. It may pay all or part of this insurance.

This type of benefit is disappearing fast. Some corporations that have provided health insurance in the past have curtailed these benefits for retirees.

We predict this is a trend that will continue, given the rising costs of health care.

What if Your Projected Income Still Doesn't Cover Your Expenses?

One of the important reasons you should project your retirement income and expenses before you retire is so you can make adjustments.

For instance rather than just retiring full time, you might talk to your employer about phased-in retirement: still working, but fewer hours. Or you may decide to start your own business. If you're married, perhaps both of you won't retire at the same time.

In addition to the financial rewards, many people like the sense of purpose working provides them. As we are living longer and are healthy longer, many appreciate the socialization that continuing to work provides them.

Conclusion

There are many excellent and comprehensive books written on the topic of planning for retirement. These articles are only meant to be a starting point to start you thinking about choices you need to make as you approach your retirement.

One of my favorite books on this topic that's full of practical information is "Knight Kiplinger's 10 steps to a Richer Retirement: Your Essential Toolkit" at **https://store.kiplinger.com**

Knight was inspired to put this book together as he was thinking about his own retirement.

Since his father, Austin Kiplinger, was still involved with the family business (Kiplinger's "Personal Finance Magazine") when he died at age 97, I doubt if Knight will be retiring anytime soon but the book is an excellent resource.

Once you do retire, I strongly recommend you review your income and expenses annually for the rest of your life.

Your circumstances will change, as will tax laws, stock market conditions and inflation and you need to adjust accordingly.

As always, I urge you to reach out to financial planning professionals to help you to plan this important state of your life.

Their job is to help you build your resources while you're still working and then to make sure you make wise decisions during your retirement years, which in some cases may last as long as you worked! B

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