Senior Sense

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How Retirement Spending Changes With Time

Once away from work, your cost of living may rise before it falls

*Article presented by **Jeff Singer**, Financial Advisor with W.F. Financial Services.*

W.F. Financial Services

New retirees sometimes worry that they are spending too much, too soon. Should they scale back? Are they at risk of outliving their money?

This concern is legitimate. Many households "live it up" and spend more than they anticipate as retirement starts to unfold. In ten or twenty years, though, they may not spend nearly as much.1

The initial stage of retirement can be expensive. Looking at mere data, it may not seem that way. The most recent Bureau of Labor Statistics figures show average spending of $60,076 per year for households headed by Americans age 55-64 and mean spending of just $45,221 for households headed by people age 65 and older. [1,2]

Affluent retirees, however, are often "above average" in regard to retirement savings and retirement ambitions. Sixty-five is now late-middle age, and today's well-to-do 65-year-olds are ready, willing, and able to travel and have adventures. Since they no longer work full time, they may no longer contribute to workplace retirement plans. Their commuting costs are gone, and perhaps they are in a lower tax bracket as well. They may be tempted to direct some of the money they would otherwise spend into leisure and hobby pursuits. It may shock them to find that they have withdrawn 6-7% of their savings in the first year of retirement rather than 3-4%.

When retirees are well into their seventies, spending decreases. In fact, Government Accountability Office data shows that people age 75-79 spend 41% less on average than people in their peak spending years (which usually occur in the late 40s). Sudden medical expenses aside, household spending usually levels out because the cost of living does not significantly increase from year to year. Late-middle age has ended and retirees are often a bit less physically active than they once were. It becomes easier to meet the goal of living on 4% of savings a year (or less), plus Social Security.[2]

Later in life, spending may decline further. Once many retirees are into their eighties, they have traveled and pursued their goals to a great degree. Staying home and spending quality time around kids and grandkids, rather than spending money, may become the focus.

One study finds that medical costs burden retirees mostly at the end of life. Some economists and retirement planners feel that retirement spending is best depicted by a U-shaped graph; it falls, then rises as elders face large medical expenses. Research from investment giant BlackRock contradicts this. BlackRock's 2017 study on retiree spending patterns found simply a gradual reduction in retiree outflows as retirements progressed. Medical expenses only spiked for most retirees in the last two years of their lives.[3]

Retirees in their sixties should realize that their spending will likely decline as they age. As they try to avoid spending down their assets too quickly, they can take some comfort in knowing that in future years, they could possibly spend much less.

Jeffrey Singer may be reached at 508-841-0635 or jsinger@centralfcu.com.

Citations.

1 - kiplinger.com/article/retirement/T037-C032-S014-why-the-4-withdrawal-rule-is-wrong.html [1/25/18]

2 - fortune.com/2017/10/25/retirement-costs-lower/ [10/25/17]

3 - cbsnews.com/news/rethinking-a-common-assumption-about-retirement-spending/ [12/26/17]

Senior Sense

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For your safety

Financial scams targeting seniors have become so prevalent that they're now considered "the crime of the 21st century." Why? Because seniors are thought to have a significant amount of money sitting in their accounts.

Financial scams also often go unreported or can be difficult to prosecute, so they're considered a "low-risk" crime. However, they're devastating to many older adults and can leave them in a very vulnerable position with little time to recoup their losses.

It's not just wealthy seniors who are targeted. Low-income older adults are also at risk of financial abuse. And it's not always strangers who perpetrate these crimes. Over 90% of all reported elder abuse is committed by an older person's own family members, most often their adult children, followed by grandchildren, nieces and nephews, and others.

Fake telemarketing calls prey on older people, who as a group make twice as many purchases over the phone than the national average. With no face-to-face interaction, and no paper trail, these scams are incredibly hard to trace. Also, once a successful deal has been made, the buyer's name is then shared with similar schemers looking for easy targets, sometimes defrauding the same person repeatedly.*

*National Council on Aging

Remember these helpful tips

Don't give out any personal information, including your family, children and grandchildren.

Don't confirm or deny any of their questions to you.

Get as much information from the telemarketer including their call back number. Most of the time, they will hang up once you start asking them questions.

Place your number on the do not call registry at https://www.donotcall.gov/. Let the caller know you are on this list and they will usually hang up very quickly.