T. Rowe Price

Need to boost your retirement savings? Spend less to save more.

Make Your Plan
December 2023

Key Insights

- Saving adequately for the future may require you to restructure your spending outlay in the present.
- Ongoing costs for lifestyle-enhancing services can be attractive, but they can also reduce your savings capacity and add to the expenses you'll need to fund with assets or income later on.
- Dialing back on discretionary spending and avoiding lifestyle creep can prove impactful steps for spending less—and investing more.

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While many individuals know they should (or could) be saving more for retirement, they're often confounded by the less commonly addressed question, "How"? T. Rowe Price recommends that investors should aim to save at least 15% of their gross income annually (between employee and employer contributions) in order to enjoy a successful retirement. If you're regularly saving less, you're probably underfunding your retirement and should consider making the necessary adjustments to save more.

Of course, if you have the ability to increase your savings rate by earning more income, you'll want to explore those options. At the same time, cutting spending is a tactic any individual can use to free up savings capacity and gain greater control of their present and future finances—regardless of earning power.

While reducing expenses requires some upfront time dedication, honest self-reflection, creativity, and sacrifice, it can yield positive monetary and mental results. For example, if at age 45 you were to begin redirecting $300 per month from a previous set of expenses to an investment account earning an average after-tax return of 6% per year, you could amass an additional $139,000 by the end of 20 years ($72,000 in additions and $67,000 in earnings).[1] With a higher monthly investment amount or average return, the results would be even more significant.

Evaluate the following options as they relate to your spending behaviors and preferences, take some notes (see "Hypothetical spending to saving transition plan"), and try to identify several areas where you can trim expenses and redirect the savings to your retirement investments. Whether it's $50 or $1,000 per month, every dollar you can set aside

[1] This example is for illustrative purposes only and is not meant to represent the performance of any specific investment option. The assumptions used may not reflect actual market conditions or your specific circumstances. Ending dollar figure has been rounded to the nearest thousand, assumes a $0 starting balance, and consistent monthly investments at the end of each month for the years specified.

and invest matters. Keep in mind that while the following strategies can help anyone to reevaluate their expenses, you shouldn't feel guilty about spending in any of these categories. It's really about finding the right balance, prioritizing what matters most, and cutting where you can—so you can ultimately get on track to retire on your timeline.

Spending to saving transition plan fundamentals:

Consider starting with a budget reset by enacting a household discretionary spending hiatus.

This is an especially helpful step if you find that you're spending all your take-home pay but are unsure about where it's going once the must-pay bills (housing, utilities, car payments, etc.) have been paid. Whether it's for one, three, or six months, set the goal of halting all discretionary purchases. Consider moving any extra funds at the end of each pay period or month from your checking to savings account (so it's still liquid). Take notes about what you were tempted to buy but didn't, and at the end of the hiatus, look back on your notes and reflect. Then calculate how much you've saved. The results of this experiment in self discipline may surprise you. **You may find that you need less stuff to be happy and are happier when you've saved more.**

Redirect any planned or unplanned cash flow increases directly to savings.

Whether you pay off a car or student loan, cut an ongoing expense, or your child transfers from a private to a public school, direct any cash flow savings immediately via automatic transfer to an investment account earmarked for retirement. The key is to redirect those funds right away, so you never grow accustomed to spending them. Once you've made a habit of this best practice, you can apply it to discretionary expense cuts as well. For instance, if you typically spend $1,200 per year on new shoes and decide to make no new discretionary purchases, you can direct $100 per month to your investments.

Avoid lifestyle creep.

Just because you make more doesn't mean you need to spend more. Take that commission, that bonus, that pay increase due to a promotion, or that annual raise and automatically direct it to your retirement investments.

> Start with a discretionary spending hiatus. The extra savings and peace of mind could surprise you.

Spending categories and practical cost-cutting tips:

Housing

Reduce housing-related expenses where possible.

Housing makes up the largest share of most family budgets (~30%). Therefore, reducing your rent or mortgage (principal, interest, taxes, and insurance) could free up a great deal of savings capacity. Unfortunately, none of the options for lowering these expenses are easy or sacrifice-free, so you'll want to carefully consider the trade-offs.

- ***Common actions include relocating to a more affordable house and/or a lower-cost area or neighborhood.*** This can be an especially attractive and a geographically wide-ranging option if your employer allows you to work remotely or you work in a high-demand industry and can theoretically relocate anywhere in the country. If you haven't yet started a family, moving into a home with roommates might be a feasible cost-cutting option. **If you're raising children and relocation could lower both your housing and child-care/education costs, this could lead to substantial combined cost savings.**

- ***More drastic actions could lead to meaningful savings but would require a higher degree of lifestyle adjustment.*** For example, one might sell their home, invest the proceeds, and move in with relatives or friends for an agreed-upon time frame (then dedicate all previous housing expenses exclusively and automatically to investments). **Another more permanent action is to combine financial forces with parents, in-laws, or siblings to purchase a larger home with separate living areas and reside together.** By pooling the down payment and monthly housing expenses, as well as the cost of utilities, maintenance, household items and food could significantly reduce overall expenses for all parties. Of course, these actions are less common and may not be realistic for many.

Insurance

Consider a high-deductible health plan (HDHP).

These plans have lower monthly premiums than more traditional plans, and if you're in good health, your total costs will likely be lower too. Lower premiums do mean significant deductibles, so you'll want to make sure you're sufficiently funding your health savings account (HSA) and/or emergency fund—just in case an unexpected medical event arises.

Evaluate life insurance coverage needs and costs regularly.

As you grow your savings and your dependents become more independent, your life insurance policy needs may change. **A term life insurance policy** can be surrendered in exchange for a lower-cost, lower-coverage, and/or shorter-term policy at any time. Most **permanent life insurance policies (such as whole or universal life)** offer **nonforfeiture options**, which are intended to provide value to policyholders in the case that they can no longer afford—or decide to discontinue—premium payments.

> Lifestyle-enhancing services can make you happier, but the costs add up—so be selective.

Nonforfeiture options include **cash surrender** (where you receive the cash value but discontinue the policy), converting to a **reduced paid-up** policy (meaning no more premiums but a lower death benefit), or converting to an **extended-term** policy (meaning the cash value is used to purchase a term policy with an equal death benefit to the original policy). To better understand options for reducing your policy premiums, start by contacting your life insurance provider and discussing your family's needs. If ending or lowering the premiums makes sense for your situation, be sure to redirect those savings automatically to your retirement nest egg.

Everyday life

Reduce ongoing lifestyle-enhancing service costs by prioritizing the ones that make you happiest.

Time-saving services (such as housecleaning, lawn care, premade meal delivery/carryout, pet walking/grooming/care, monthly parking, taxis/ridesharing, car washes) and **personal maintenance services** (such as nail and hair salon visits, massages, acupuncture, personal training) can certainly make life easier and help you look and feel great, *but they can also add up, so it's important to be selective about which ones are must-haves for you.* **If you're behind on saving, cutting one or two of these services may free up a surprising amount of cash flow to invest.**

When it comes to vehicle purchases, choose safety and affordability over luxury and novelty.

Vehicles generally depreciate in value. So new luxury vehicle purchases with all the bells and whistles can prove a pricey and less efficient use of your hard-earned dollars—particularly compared with investing. The simple act of buying an affordable, good-quality new or used car and paying in cash or taking on the lower payment could be more impactful than you think. If your current car payment is particularly high, don't be afraid to explore selling the car and purchasing a more affordable one.

Competitively price ongoing fixed expenses regularly.

The cost of ongoing expenses such as auto and homeowner's insurance premiums, bundled cable/internet packages, utility or cell phone bills, and gym memberships can often be lowered with a bit of online research and a few phone calls. Simply explain that you're shopping providers and would like to inquire about new or existing (loyalty) customer discounts.

Explore income-driven federal student loan repayment options.

If you're among the millions of Americans with outstanding student loans, new legislation regarding income-driven federal loan repayments (IDRs) may enable you to increase your savings capacity by lowering your payments. The new Saving on a Valuable Education (SAVE) program (set to replace REPAYE in 2024) will increase the threshold for income deemed "available" to make IDRs, stop charging monthly interest not covered by the borrower's IDR, and enact loan forgiveness after 10–25 years of repayment (depending on your situation).

Say no to the newest technology.

If you regularly upgrade your phone, laptop, wireless headphones, gaming systems, or watch, consider extending the time between upgrades. These purchases can really add to your ongoing fixed costs, and if the device still works, there's often no need to replace it.

DIY (do it yourself) where appropriate.

There is no shortage of online tutorials for home improvement, decoration, maintenance, or handyman projects. So if you're inclined (and relatively handy), taking on home renovation or beautification projects yourself can save you money on labor costs and lead to additional pride in the process. Though, for more complicated projects, hiring a professional may be preferred regardless of the potential cost savings.

Groceries

Plan meals and cook at home.

It's no surprise that food costs add up, but planning ahead can make a big difference in terms of cost (and calorie) savings. **Speaking of food costs:**

- **Embrace store-brand items** where possible. Cost savings on generics

for everything from fresh proteins and produce to canned goods and snacks can be substantial.

- To avoid food and financial waste, **have a designated pantry-cooking day and set up an "eat me first" area in the fridge.**

- **Shop for groceries and household items online for scheduled pickup or delivery.** While there may be a delivery fee, many stores don't charge for pickup. Either way, you'll likely eliminate the temptation to pick up additional items as you wander the aisles or wait in the checkout line.

Family

Provide a monthly discretionary budget for your children.

It's never too early (or late) to teach your children about money. The primary lesson should be that money is a finite resource. Regardless of their age, if they are dependents in your household or at college, give them a monthly budget (or allowance) for spending on items like toys, crafts, video games, movies with friends, carryout, etc. Help them keep an inventory of the purchases you've covered, and when they reach their max for the month, let them know they'll just have to wait. No exceptions. This will teach them to make more mindful money decisions and help you to place guardrails on how much you spend on them—so you can save more for you.

Set a limit on the number of extracurricular activities you'll financially support.

According to Lending Tree, the average American family spends $731 per child on extracurriculars,[2] although those enrolled in travel teams and/or more expensive sports (like hockey, skiing, or gymnastics) often spend significantly more. Costs such as registration fees, lessons, uniforms, equipment, and tournament-related travel, dining, and lodging can really add up. The reality is that fewer than 2% of high school athletes receive some form of athletics scholarships to compete in college,[3] so if you're spending thousands of dollars with that goal in mind, grant yourself permission to refocus your financial efforts. That said, since extracurriculars can help your children build confidence and valuable life skills, consider less expensive approaches such as participating in school or rec leagues only and purchasing secondhand equipment and gear.

Save money on summer camp.

The same survey found that American families spend an average of $1,453 on summer activities for their children ($2,123 for households earning more than $100,000 per year). If you're spending a significant amount on summer camp for your kids, explore more affordable options such as camps sponsored by local parks and recreation departments or religious organizations. Or consider asking a grandparent, close family member, and/or parent friend (ideally whose children are friends with yours) to each spend a week with them over the summer. Your children can still build lifelong memories, and you can invest your cost savings.

When it comes to selecting a college, balance the best with the best value.

We recommend that families limit their child's education debt to federal direct student loans. Holding yourself to this limit can help you choose a college that is financially reasonable and avoid accumulating too much debt. Over the full course of an undergraduate program, the most that dependent students can borrow is $31,000.[4]

Reevaluate the extent of your spending on holidays and birthdays.

You might find that you spend hundreds or thousands of dollars celebrating your loved ones at special times of the year. But that doesn't need to mean more stuff or an extravagant celebration. Arrange a Secret Santa, agree to exchange handmade gifts, co-host a birthday party with several of your children's friends, or hold the celebration at home or at a public park. There are so many creative and thoughtful ways to show the people you love how you feel—without overspending money you could have invested.

> "Setting financial boundaries with your loved ones can lead to more mindful money decisions for all of you.

Where applicable, consider asking your adult children to pitch in financially.

Like so many Americans, you may have adult children who are working and living at home. If this is the case for you, consider charging your adult child an informal version of rent, then redirecting that entire amount to your retirement-earmarked investments. Of course, it's up to you whether you request an amount equivalent to market rental rates or just a couple hundred dollars, but this could accomplish several goals: It can enable you to put away more toward your retirement and get your child accustomed to paying for housing.

[2] https://www.lendingtree.com/credit-cards/study/kids-extracurriculars
[3] https://www.ncsasports.org/recruiting/how-to-get-recruited/scholarship-facts
[4] Roger Young, "How to Make Smart College Loan Decisions and Evaluate Loan Forgiveness Options," T. Rowe Price, September 2023.

Entertainment and travel

Evaluate subscriptions regularly.

You're probably spending more on these autopayments than you think. So if you subscribe to several publications, multiple streaming video, music, and audiobook services, as well as cable, individually evaluate the cost, use, and personal value associated with each service. There are multiple free apps available to help you inventory your subscriptions and associated costs and even find opportunities to bundle and save. But if the subscription service is ultimately too expensive, rarely used, or doesn't truly bring value to your life, consider canceling altogether.

Take advantage of matinees and happy hours.

A 5 p.m. dinner time is no longer out of style or reserved only for those with an 8 p.m. bedtime. Not to mention, matinee pricing for movies and theater tickets and happy hour specials for food and drinks can lead to substantial cost savings. In addition to the reduced expenses, health benefits associated with an earlier dinnertime may add to the appeal of partying well in advance of bedtime.

Embrace your public library.

A library card isn't what it used to be. These days, in addition to book borrowing, a library card can provide you free museum passes, streaming movie access, and rentals for everything from audiobooks and household tools to sewing machines, telescopes, and outdoor sporting equipment. You just have to make a call or an in-person visit to your local library.

Travel off season or to drivable locations.

When it comes to big trips, driving or flying off season can lead to meaningful cost savings on flights, hotel rooms, car rentals, and excursion tickets. You'll also likely face less competition with crowds. **If you're significantly behind on saving for retirement and are unable to cut in other ways, you may need to consider staycations and diverting your full travel budget to your retirement savings—at least for a few years.**

Shopping

Remove tempting shopping apps from your phone, and unsubscribe from marketing emails.

There are indeed benefits to the convenience of easily browsing, clicking "add to cart," checking out, and then having pretty much any item you need or desire within days. The downside is that the easier purchases are to make, the more tempted you'll be to make them. Remove the store's app. Unsubscribe to the constant emails about sales. Take a beat before clicking "add to cart" and "check out."

"Buy for nothing" where possible and don't overlook dollar stores.

If saving more for retirement will require you to think and shop more economically, you have options. There are many websites and social media groups with people looking to give away gently used furniture, clothing, dishes, appliances, and other useful items. Dollar stores are cost-efficient resources to acquire the basics without the temptation to buy in bulk.

For luxury item and electronics purchases, consider buying them secondhand.

Designer furniture, décor, clothing, handbags, jewelry, shoes, and other high-end goods and electronics are often available for resale at a reduced cost. **Then again, you could also avoid buying them altogether, especially if what you own is more than adequate.**

Clothing

The 70/30 rule for clothing is the concept that 70% of your wardrobe should consist of classic, high-quality, functional pieces that you wear often and can easily mix and match, and 30% trendy, fun pieces that you wear less often but can complement the bulk of your core pieces. Speaking of clothing, here are some additional considerations:

- Organize your closet to gain a clear inventory and view of the items you already own. Sell, donate, or recycle items you don't wear. Note why you don't wear them and commit not to repeat the same mistake.

- Don't purchase items the first time you see them. Wait. If you can't stop thinking about the item and can easily use it to assemble multiple outfits with pieces you already own, it may be worth the investment.

- Make clothing items last longer by following the laundering instructions closely. Along the same lines, where possible, opt for high-quality items that can be machine laundered or hand-washed and don't require frequent dry-cleaning.

Again, these are just a few of the many options available for freeing up money to save. Create a worksheet to note your observations about your current costs, potential cuts, and monthly dollar totals you could redirect to savings. If you have a partner, make sure you evaluate these options together. You can keep each other honest and will be more likely to stick to your plan if you come up with it together.

For further motivation, consider adding up the spending cuts you've identified and entering that dollar amount into an online investment growth calculator. Seeing the numbers can help make the sacrifice seem more purposeful and worthwhile. And, of course, don't hesitate to work with a financial professional on developing and implementing an automated investment plan with your newfound cash flow.

Hypothetical spending to saving transition plan

(Fig. 1) Small adjustments can lead to major savings potential

This plan is hypothetical but designed to illustrate how small, practical cuts in several spending areas can add up to significantly increased savings capacity. For the purpose of this example, several major categories have been left blank either because spending tends to be variable (as in home projects) or because cuts in those areas (such as housing, vehicles, and child-care/education) could be so substantial that they would inflate the total hypothetical savings figure. Some of these categories may not apply to you, and that's okay. Focus on the categories applicable to your situation and spending patterns, and cut where you can. Even if you're able to save a third of the total amount captured here, $550 per month earning an average of 7% annually can grow to approximately $445,000 over 25 years.*

Category	Notes and Observations About Current Costs and Potential Cuts	Monthly Cuts ($)
Housing		
Life and Health Insurance	– Reassess and restructure life insurance (save $100/month) – Switch health coverage to a HDHP (save $100/month)	$200
Lifestyle-Enhancing Services	– Reduce food delivery/fast food to once per week (save $50/week) – Find a more affordable cleaning service (save $100/month)	$300
Vehicles		
Ongoing Fixed Expenses	– Negotiate cable/internet bill down (save $75/month) – Restructure gym membership (save $30/month) – Shop new auto insurance (save $40/month)	$145
Student Loans	– Restructure student loans based on income (save $50/month)	$50
Technology Upgrades	– Skip the next phone trade-in and upgrade (save $30/month)	$30
Home Projects (DIY)		
Grocery Costs	– Meal plan and shop online for pickup once per week (save $50/week)	$200
Discretionary Budget for Kids	– Reduce discretionary spending budget (save $100/month)	$100
Extracurriculars for Kids	– Reduce extracurriculars from three to two per child (save $600/year)	$50
Summer Activities for Kids	– Utilize less expensive camps and coordinate with parent friends and family members to reduce total summer expense outlay (save $600 over the summer)	$50
Child-Care/Education		
Holidays and Birthdays	– Work out a plan with the family to establish a spending limit and/or agree to exchange handmade gifts (save $600 over the holidays)	$50
Entertainment and Travel	– Limit travel to drivable locations and/or travel off season (save $1,200/year) – Stick with day dates (save $50/month)	$150
Subscriptions	– Rotate or cancel three streaming service subscriptions (save $60/month) – Get a library membership, cancel audiobook subscription, and limit new book purchases (save $40/month)	$100
Shopping	– Remove tempting, quick-delivery shopping apps and unsubscribe to marketing emails from those stores (save $100/month)	$100
Clothing	– Don't purchase any new shoes (save $1,200/year)	$100
Total		**$1,625**

For illustrative purposes only.

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INVEST WITH CONFIDENCE®

T. Rowe Price identifies and actively invests in opportunities to help people thrive in an evolving world, bringing our dynamic perspective and meaningful partnership to clients so they can feel more confident.

ID0006533 (12/2023)
202312-3250045