CONFIDENT CONVERSATIONS® on Retirement:
Adapting Your Spending Habits in Retirement: Why to Plan Ahead

Kim Zook: Welcome to T. Rowe Price's CONFIDENT CONVERSATIONS® on Retirement. My name is Kim Zook, and I am excited to be your host. As a person who is naturally curious, I've dedicated my career to lifelong learning and asking the right questions to help people successfully prepare for retirement. My colleagues joining me today are financial professionals who also help people on their retirement journey, whether they are planning for retirement or already in it.

Research shows that spending generally tends to decrease in retirement, but everyone's experience is not the same. To prepare, you have to be able to adapt and should develop plans to manage both essential and nonessential expenses. Nonessential spending is a major factor in financial satisfaction in retirement. But to enjoy your lifestyle, it helps to have a clear understanding of your overall spending. Today, we will discuss how thoughtful spending plans can lead to a more confident and satisfying retirement.

With me today to discuss this topic are CERTIFIED FINANCIAL PLANNER™ professional Lindsay Theodore and Sudipto Banerjee, Global Retirement strategist at T. Rowe Price. Welcome back to the podcast, Lindsay and Sudipto.

Lindsay Theodore: Thank you so much, Kim. Glad to be here.

Sudipto Banerjee: Pleasure to be here, Kim.

Kim Zook: Sudipto, I know you've done a lot of research regarding retirement spending. Since 2008, you've published numerous articles on your research about retirement. I've enjoyed reading them, and I learned so much from you and I'm excited to share with the audience your findings. Can you share with our listeners some of what you've learned?

Sudipto Banerjee: Yeah, absolutely. And as you mentioned earlier that research shows that spending steadily declines in retirement. So, we estimated in our research that on average, after you adjust for inflation, spending goes down about 2% every year. After all, people, they're not commuting any longer, they're not spending money on clothes for the office, they're not buying lunch every day. And for most people, the kids are probably out of home and so on. So, it makes sense that spending gradually goes down. But here is the catch. I said on average. The average going down doesn't mean it goes down for everyone or every year. The reality is a little more complex. So, retirees can experience significant fluctuations in their spending, and it's not always predictable. So, we estimated that 1 in 4 retirees will see close to a 20% increase in their spending over a two-year period. And another quarter of retirees will experience a similar decrease. So, these fluctuations can happen for a variety of reasons. And understanding why they occur can make all the difference in planning.

Kim Zook: Fascinating. So, I think what's interesting about that is it sounds like, if I'm hearing you, when we talk about fluctuations, we aren't just talking about it going up but also decreasing, which we don't hear a lot about. So, what have you found are the main causes of big spending changes in retirement? I've heard most people, you know, in the industry or in my family gatherings or in the press think it's health care. Is that correct?

Sudipto Banerjee: That's a great question. Actually, you know, whenever we talk about large spending increases in retirement, everyone tends to think that it's health care. Health care is an important contributor to it, but it's the second most important one. The largest contributor to is actually home and home-related expenses.

So, for context, you know, our research and much of the existing consumer spending data, that is available has found that housing costs make up about somewhere between 30 to 50% of overall spending for a household. And perhaps because this category is so broad that we have found roughly about 25% of all the fluctuations in retiree spending actually comes from this category, that is home and home related expenses.

Kim Zook: Great. Sudipto, thank you for that and for demystifying some of the myths out there. That number one is health care, when in fact it's housing. Lindsay, I'd like to pivot over to you, because I know you share my interest in this. Would you help our audience understand what exactly is included in housing? And can you talk a little bit about how and why it impacts spending in retirement?

Lindsay Theodore: Sure, Kim. Like Sudipto mentioned, the category of housing is broad. It includes mortgage or rent, insurance, taxes, home repairs and maintenance, including renovations, housekeeping supplies, household furnishings, dry cleaning and laundry services, home cleaning services, and even supplies and services for landscaping and gardening.

Kim Zook: Oh, wow.

Lindsay Theodore: So, it makes sense, because it's such a broad category…

Kim Zook: Sure.

Lindsay Theodore: …that fluctuations in that area account for nearly 25% of retiree spending fluctuations. And it also makes sense that retired people do tend to be older and live in older homes, which require more repair and upkeep.

Retired people also tend to spend more time in their homes, which may inspire them to invest in things like renovations or new furniture, or new hobbies, like gardening. While some housing expenses, like property taxes and mortgage payments, insurance, are relatively predictable and ongoing, replacing a roof or HVAC system tend to be a lot less predictable and more sporadic, and can have a significant impact on your spending in a given year, but maybe not continue.

Kim Zook: Sure. So, my parents just had to replace, like their furnace or a roof.

Lindsay Theodore: Right.

Kim Zook: And to your point, that resonates with me and I'm sure our audience, because those can be significant… I don't want to call it a shock, but those are not just the cost of, you know, buying a lawnmower, right?

Lindsay Theodore: Right.

Kim Zook: Per se.

Lindsay Theodore: Exactly. Yeah, and Sudipto refers to it as a shock, at times as well. And another key finding from Sudipto's research is that lower income and higher income households experience similar short term spending fluctuations. It's just that for higher income individuals and families, the majority of their spending fluctuations can be attributed to chosen increases in non-essential, kind of fun, discretionary spending, like on home renovations or on travel, hobbies, maybe a big splurge on a handbag or something, where spikes in spending for lower income families are often due to increases in essential expenses, such as home and car repairs, groceries, or medical bills, like you were saying, Kim.

Kim Zook: Yeah, so what resonates for from non-essentials/discretionary if sort of wants versus needs, right?

Lindsay Theodore: Right.

Kim Zook: I think that that's really helpful. Sudipto, I want to go back to your point of spending going down in retirement. Some might say that this is because people don't have enough savings. Is that your take as well?

Sudipto Banerjee: That's such a great question. So, every time we have a discussion on spending going down in retirement, this question always comes up, whether people are forced to spend less because they don't have the savings or is it a choice? So, for the most part, I would say it is a choice. For some people, yes, it can definitely be the case that they don't have enough savings, and they're forced to reduce their spending. But if you look at the data closely and I'll point, towards two data points which suggest that for most people, it is a choice. So, the first one is if you look at retirees, spending goes down across the board. So, what I mean is if you look at the wealthiest retirees who are at no risk of running out of money in retirement, even among them, we see that similar decline in their spending, actually, their spending goes down at a slightly higher rate than the average.

Kim Zook: Interesting.

Lindsay Theodore: Mmhmm.

Kim Zook: Very interesting.

Sudipto Banerjee: Right. So, it's just that they don't need to spend as much probably, once they retire. So that's one, it goes down across the board. And the other one which I find interesting as well is if you look at the different categories of spending, there's one category which share actually tends to go up even as overall spending is going down as a whole, and that is gifts and donations. So, people, as they're aging, you see a larger share of their spending is actually going for gifts and donations. Now, if they were really financially in a tough place, then you would not expect them to spend more money on gifts and donations, so this is another data point which suggests that, for most people, it is a choice and there is just no need to spend as much. I also think what's going on here is that the needs go down because a lot of the spending is related to health. If you're not in good health, you cannot just do certain stuff. People travel less, they are eating out less frequently and so on. And there is some recent research from Rand Corporation which suggests that people might get the same level of satisfaction from spending less as they age. So, for example, you know, a dinner at a local diner with your old friends might be as satisfying, if not more than a fancy meal, say, in a nice steakhouse, right?

Kim Zook: Right.

Sudipto Banerjee: As people age, it's those bonds and you're just having a good time. It doesn't matter how much money you are spending.

Lindsay Theodore: Right.

Kim Zook: Which is so, you know, as an economist, I like how you're using the data and, and I'm thinking through our preparation for this episode as we study the data, it makes me think, of this group of us and our producer Owen sharing some examples that he's observed in his retired parents about how a certain group would get together to your reference about going out to a nice dinner, which we all know. Restaurant menus, you can have the same item. It could be served at lunch but maybe charge more for dinner. So, the cost inherently of a dinner can be more expensive. But he was telling a story about how his retired father, they now gather for coffee weekly. And so just, organically, what is so meaningful for their group is to connect and get together once a week. Same, ritual, but for coffee versus a meal. So, some of these decreases in spending, are so interesting. I think I also, I talk a lot about my family in this season, but part of that is I was just with my parents and they are retired and they tend to share meals when we go out, which is a new development and probably good for health reasons, but more just that what they've said to us is their preference. They stay at home more for dinner, just by choice. But when they do go out, they share because they choose to share what they would have spent there on the things you just talked about with gifts.

Lindsay Theodore: Yeah.

Kim Zook: So, I was telling Lindsay about the holidays and how I tease my parents a bit, but they would rather use that money to give an extra $100 to their grandchildren.

Lindsay Theodore: Yeah.

Kim Zook: For their holiday or because they're in college to help with their books or spending, versus spend on themselves. So, it seems like that shift in priorities, we're seeing a lot of that.

Lindsay Theodore: Absolutely. Yeah.

Sudipto Banerjee: Absolutely.

Kim Zook: So, getting back to the conversation, what does all this mean for our retirement plans. Sudipto, can you talk a little bit about that.

Sudipto Banerjee: Absolutely. It's clear that planning for these spending fluctuations is crucial for a successful retirement. But the key question is, how do you do that? So, one of the learnings from our research is that if people want to minimize large fluctuations in their spending, they should pay really close attention to housing. Housing is by far the largest spending category. And that's true when people are working and when they're in retirement. So, controlling that piece of the budget is really crucial. So, they could think about sizing down, maybe also move to a newer construction which has, you know, less upkeep. And if someone wants to stay in their home, then maybe, you know, get some of the major renovations or updates, like a roof or changing the appliances, all that done while they're working - before they retire - basically to make the home more futureproof while they're working.

The other thing that I would say is just build a retirement plan that balances liquidity and growth, people really need easily accessible liquid assets to cover, some of these sudden spending increases, but they also need to grow their money because for all the reasons that they save for retirement. So, if someone suddenly experiences a large increase in spending, maybe because, it's a roof, maybe it's a health event, right? So just making sure that they have enough liquid savings so that they don't need to liquidate their investment at the wrong time, which would have a negative impact on their overall finances for the long term. So, this is where I think a well-diversified portfolio with a balance between liquidity and long-term growth really comes into play.

Kim Zook: Can you, for our audience, define liquidity? I know a lot of us know that vernacular. But for our audience out there, I'd love to hear how you would, give an example of maybe what that could look like.

Sudipto Banerjee: Yeah. Liquidity means money that you can easily access…

Kim Zook: Okay.

Sudipto Banerjee: …something in your savings account. You can just, access it on a, on a very quick.

Lindsay Theodore: As needed.

Sudipto Banerjee: As needed.

Lindsay Theodore: Get quick access and you don't have to worry about fluctuation of the value.

Kim Zook: Okay. So that's great. So, like for our audience thinking through, what I loved about your actionable insight around if you're still working and getting ready for retirement, the consideration on how to prep for housing costs. I thought that was great because I'm not sure if I'm 51, so I'm not quite at retirement, but it sounds like this concept of being ready for housing and maybe not thinking it's just health care, just downsizing, making sure you have a plan for liquidity.

Lindsay Theodore: Replacing things while you're working...

Kim Zook: While you're working, which I love.

Lindsay Theodore: if you know the roof is going to need to be replaced in the next five years, just get it done before you retire. I think it's a great point, but I think it's easier said than done because for many people, it's human nature.

Kim Zook: True.

Lindsay Theodore: They just want to wait until it absolutely needs to be done to do it.

Kim Zook: Has to. Yeah.

Lindsay Theodore: So, if you know that that's your personality, maybe set aside some funds and, and earmark it as like your home repair or roof fund so that you know when that needs to get done, you have some money to pay for it.

Kim Zook: Yeah, and I like that because I should have said you can be ready. Having a well-diversified portfolio, whether you're the person that waits for it to break…

Lindsay Theodore: Right. Right.

Kim Zook: …or that wants to do it ahead. So, thank you for that. Lindsay, can you tell us a bit about what role non-essential spending plays? So, let's that's discretionary, kind of, what role does that play in financial satisfaction?

Lindsay Theodore: Sure, this was another interesting finding from Sudipto's research it's really not surprising, but there is a link between non-essential spending - so discretionary, fun spending - and financial satisfaction and retirement. So, retirees who are able to spend more on fun, discretionary items - like vacations or hobbies - reported greater satisfaction with their financial situation.

In contrast, those whose non-essential or fun spending dropped over time were more likely to report lower satisfaction. Again, unsurprising, but it simply highlights the importance of planning beyond the basics. And so, while you definitely want to make sure that the mortgage will be covered, all your "must pay" bills like cell service, groceries and so on. It's equally, if not more important to build fun expenditures, like dining out, vacations, theater tickets, Ravens tickets, into your spending plan. Now, this may require a higher savings target to be able to meet that income need and keep your withdrawal rate at a sustainable level or delaying retirement by a couple of years. But in the end, you don't want to aim to survive in retirement, you want to aim to thrive. I know that sounds cheesy, but…

Kim Zook: No, I think it resonates because you mentioned, vacations, theater tickets, dining out. Certainly, you want to cover the essentials. I think a lot about you said choice. Both of you of referenced, having the ability or flexibility to do that. And this does correlate with satisfaction.

Lindsay Theodore: Yeah.

Kim Zook: I think that's really good for the audience to think about as they prepare.

Lindsay Theodore: Totally. And the truth is, like Sudipto was saying, like you were saying, Kim, at some point you might not be able to get up the stairs at the Ravens games or be able to go to Broadway and brave Times Square. And so naturally those expenditures might go down, but at least in the first 10-15 years of healthy retirement, you probably want to be able to fund those things, so you just have to make sure you're accounting for them.

Sudipto Banerjee: Yeah. I think that the key here is that people need to think that they have the choice.

Lindsay Theodore: Right.

Kim Zook: Yes.

Sudipto Banerjee: That I'm not limited.

Lindsay Theodore: Exactly.

Sudipto Banerjee: Whether I do it or not, that's a different question. But if I feel that I can go to the Ravens game if I want…

Lindsay Theodore: If I want.

Sudipto Banerjee: …if I want to, and that's what is really that's the key here.

Lindsay Theodore: That's what really matters. Yeah absolutely.

Sudipto Banerjee: Yeah.

Lindsay Theodore: And another thing I wanted to point out, like in the housing category, we talked about that it's broad, there's gardening supplies which are non-essential considered fun discretionary, even though that falls in housing for accounting for the 25% of spending fluctuations being attributed to housing, not all of those are essential. Some are discretionary, like the house cleaning services and so on. But some people might consider their gardening equipment, or landscaper or cleaning service, totally essential expenses. So, as you're kind of thinking through what your spending plan is for retirement, really think not only of how an economist like Sudipto would categorize an expense…

Kim Zook: Sure. Right.

Lindsay Theodore: But how would you, right? Because we're all going to need to replace socks and t-shirts over retirement. But a handbag purchase, it's not considered essential in the eyes of an economist…

Kim Zook: No, exactly.

Lindsay Theodore: But for some people it might be absolutely essential. And the same goes for, like, trips to visit your grandkids.

Kim Zook: That's right.

Lindsay Theodore: …or go to the Grand Canyon or out west once a year. That might be considered discretionary, but for you, that might be something that gives you a great deal of fulfillment and happiness and so you have to consider a kind of a must fund.

Sudipto Banerjee: Yeah. I mean, these definitions, we have to follow some sort of definition, right?

Kim Zook: Of course. Of course.

Sudipto Banerjee: to do the, the research. But they are kind of fluid. I would give an example of something even more basic. It's just groceries.

Kim Zook: Right.

Sudipto Banerjee: So that is everyone would agree that is an essential.

Lindsay Theodore: Yeah.

Sudipto Banerjee: But even within that, I think people have choices like, where you are shopping. So, you could shop at Whole Foods all the time for everything, right?
Kim Zook: Right.

Sudipto Banerjee: Or you could choose maybe a grocery store which is probably cheaper, right?

Lindsay Theodore: Yeah.

Sudipto Banerjee: So again, so people have discretion even when what we consider is essential spending.

Lindsay Theodore: Yeah, it's very fluid. Agreed.

Kim Zook: Well, what I love about this conversation, to hear from both of you, is that it's really important to define each audience member that's listening, what their non-negotiables are and to make sure you're funding them. Sudipto, how can our listeners prepare for spending fluctuations in retirement?

Sudipto Banerjee: Yeah, sure. So, I think it really starts with understanding your specific needs. So, the first would be assess your essential expenses. So, take a look at your essential spending, especially housing and health care. So, these are the areas where you are most likely to see fluctuations.

Kim Zook: Okay.

Sudipto Banerjee: So, consider how you might handle those unexpected increases in these areas. You know whether it's liquid savings that you have, whether it's getting additional insurance, for things. And when it comes to housing, whether you are downsizing or all those the things that we have already discussed, the next one would be planning for the non-essentials or the fun stuff, don't forget to budget for that. Whether it's travel, dining out, pursuing a new hobby, whatever it is, make sure your retirement plan allows the flexibility so that you can enjoy life without worrying about money.

The next one, again, we touched on this before, keep a portion of your portfolio as liquid that you can easily access, right? Even if you have a very strong investment strategy, it's crucial that a portion of your assets are always available for you because some of these things can just happen, and you might need the money, on an instance notice. So, this can prevent you from having to sell off your investments particularly in a downturn. You don't want to do that. And finally, I would say is just adjust your plan as needed, so be flexible. So, retirement isn't static. your needs, your expenses, even some of your wants might change over time because retirement, it's a 20–30-year period, right? And things will change over that course of time. So, it's important that you stay flexible and review and adjust your plans accordingly.

Lindsay Theodore: I agree with all of that. Those steps are crucial. The other thing I wanted to point out, the housing expenses, make sure that you get those to a reasonable level, something that you can hopefully predict as an ongoing expense. One thing retirees are running into these days, especially if they're in areas of the country where there are more natural disasters, or just rising sea levels, think about your risk for your insurance going up and think about, does it make sense to relocate to another area of the country where you won't see those huge fluctuations?

Kim Zook: It's certainly a new consideration that I don't think gets spoken about enough, Lindsay. So, I appreciate you bringing that up. I know that property tax increases…

Lindsay Theodore: As well.

Kim Zook: …like you mentioned can be somewhat predictable. We've certainly seen a rise there.

Lindsay Theodore: Yep.

Kim Zook: But to your point about insurance and homeowner, you know, building that into a financial plan, all the more reason why to work with a financial professional to help you plan for that.

Lindsay Theodore: To plan for a reasonable inflation rate for that too, especially if you're in an area where those rates are rising. And then the other thing was with the liquidity aspect, too, I think making sure that you have that emergency fund but you're also replenishing it as you use it and as your other growth investments make money, make sure that you're carving off and replenishing the emergency bucket so that the next fluctuation, you have the money to pay for it. I'd also say in my experience working with clients, going into retirement or even five years before, they often don't know exactly what they spend where. I mean, they know the bills that are ongoing and come out of their bank account on an automated basis, maybe like what their cell phone bill is and cable bill, and the mortgage payment.

But as for other things, the money that they spend that is not automatically taken from their checking account on groceries at Whole Foods or what have you, a lot of them don't know what they spend. And it's not really a surprise because during their accumulation years, they earn their income, they saved what they could and then they spent whatever it was leftover.

Kim Zook: Yeah. And I think a lot of our audience is working so hard in their careers or raise families or they have commitments. And it's not to say that they're not paying their bills, but your point is, they maybe don't have that tight of an inventory on where $20 here is going. $100. You know, maybe my think my cell phone bills $100. Well, what if it's $140. And so, I think in these accumulation years…

Lindsay Theodore: How much do I actually spend at Target?

Kim Zook: Right.

Lindsay Theodore: I don't want to know.

Kim Zook: And I think that's fair.

Lindsay Theodore: I'm kidding.

Kim Zook: So, when you say that your clients don't exactly know, what do you recommend there. How do you how do you coach your clients on that?

Lindsay Theodore: Yeah. Well, I have to coach them to start with a baseline. You can't really plan for the fluctuations unless you know what the baseline amount is that you actually will need to hit your bank account in retirement for you to live your lifestyle and be able to afford both the fun things and the must pay things that you know you're going to need to continue. So, there are a couple of ways that one can kind of figure out what that is. So, you can just aim to replace your net income that you got when you were working.

Kim Zook: Okay.

Lindsay Theodore: So that's looking at what is the net pay that I receive to my bank account from my work, probably want to include bonuses and things like that. You just want to know what's your cash flow for the year.

Kim Zook: Okay.

Lindsay Theodore: And then you can work with a professional to build in things like taxes. Health care assumptions for the premiums that you'll have to pay when you're retired, as well as some out-of-pocket things. And that can help you come up with a target for how much gross income you need to essentially net about the same amount when you were working.

Kim Zook: Okay. So, like, what's coming in?

Lindsay Theodore: What's coming in. How can I replace it.

Kim Zook: What's going out.

Lindsay Theodore: How much would I need in order to replace my net income. Now to do that, in many cases you need a sizable investment nest egg. And it also, it's a quick and easy way of figuring out "what do I need as far as income in retirement to maintain my lifestyle"?
But it's not really a very thoughtful exercise because you're not really thinking about and identifying the things that absolutely give you fulfillment and make retirement worthwhile.

Kim Zook: Okay.

Lindsay Theodore: So, the better method that I encourage clients to take is to really analyze at least two years of spending. It can be going forward if you're several years in advance of retirement, or it can be looking back. And look at two years of your spending, categorize it, think about, again, what your personal characterization of the expenses would be, and then think about how they'll change. Like will the mortgage be paid off?

Kim Zook: Right.

Lindsay Theodore: That will reduce the amount of income you would need. Is that handbag purchase? I hate to keep talking about handbags. I'm not obsessed with handbags.

Kim Zook: I think we've learned she loves handbags.

Lindsay Theodore: No, I am thinking of my sister. My sister…

Kim Zook: No, this is real.

Lindsay Theodore: ...loves sneakers and handbags

Kim Zook: Well, if that brings her satisfaction.

Lindsay Theodore: That brings her joy.

Kim Zook: Great.

Lindsay Theodore: And so, for her, that's essential. So again, going through and having a detailed categorization of what's most important to you and what you'll want to continue, or at least have the flexibility to continue in the initial phases of retirement. Doing that, is a much-preferred method for people now.

Kim Zook: And this is you're spending analysis…

Lindsay Theodore: Like a detailed spending analysis is what I would consider it. But that's not really like an official name of the exercise. But doing that, I've just found that clients are much more looking forward to retirement because they've really given thought to all the people and places and experiences they'll definitely want to enjoy in retirement. So, it takes away some of their reluctance to spend their own money because it's a difficult transition, going from saving all your life to suddenly spending your own money. It can be terrifying.

Kim Zook: Well, it is certainly a mindset shift.

Lindsay Theodore: Yep.

Kim Zook: I volunteer weekly with a group. There's eight folks and half are retired, and half are about to retire. It's fun, I'm like the youngest on the block, I'm learning a lot listening. But what you're speaking about, this detailed spending analysis, they were talking about cutting the cable cord to save money to go to just do digital streaming and what is really interesting, and if you all could see me, I'm looking over at Sudipto, the economist, is they ended up realizing they didn't save anything because they cut the cord initially, but then they subscribe to so many subscriptions. Now, part of that we talked about is there was an unexpected, you talked about being flexible. Well, during Covid, they went up on their subscriptions because they were housebound. However, what's fascinating about human behavior, and I know Sudipto you've been studying this for decades, spending behavior, is inertia. They never canceled some of them.

Sudipto Banerjee: Exactly.

Kim Zook: And so why I love your detailed spending analysis, actionable idea for our audience is it's time to really get honest with yourself about what you've been spending or looking forward what you plan to spend.

Lindsay Theodore: Right.

Kim Zook: It's really helpful.

Lindsay Theodore: And if you are going to change it, like reduce the number of streaming subscriptions, don't just say you're going to do it in retirement, it's probably best to just bundle those or cut the ones that you don't use, but do it sooner than later, especially if it involves dropping some of those things that aren't even giving you joy while you're working. Why are you spending the money on it now? That money could go to savings, and you could be able to spend it in the future or at least have the flexibility to.

Sudipto Banerjee: Right. And I think some of these applies to when people are working as well. Right? I mean, it applies to everyone.

Lindsay Theodore: Right.

Sudipto Banerjee: Like just to take a stock off your spending every couple of years just because like how many subscriptions that we have that we never use completely forgotten about.
Lindsay Theodore: Right. So definitely.

Sudipto Banerjee: But the money is still going into it.

Lindsay Theodore: Signed up for the free trial and just forgot to cancel the seven days or 30 days or what have you.

Sudipto Banerjee: Exactly.

Lindsay Theodore: So, and there are lots of apps and things that you can use to try and figure out, like, what am I spending on an automated basis? And Kim, I'd also point out another elephant in the room. Again, I love all of Sudipto's research on spending. And I've dug into it quite a bit. And one of the things I've found with clients is that they are hesitant to spend their own money in early retirement, both because it's a difficult transition, but also because they're concerned that they might need long term care one day. And just in case they'd rather spend below what I tell them they can actually afford to spend.

Kim Zook: Oh, interesting.

Lindsay Theodore: Yeah, and another critical component for planning for those long-term care expenses later on and making that estimate is, of course, thinking about your housing and lifestyle preferences later in life. It might be hard to envision, but it's important to have an idea so that you can plan for how expenses might change. And we actually have a podcast episode that we recorded on the very topic of long-term care planning and housing in the second half of retirement, so I'd encourage people to check that out.

So, again, establishing that baseline ahead of time can help you to then plan for and maybe estimate what's a reasonable number of years and dollar amount that I might budget for long term care down the road. It's not a lot of fun to think about aging, but we're all going to do it. We're doing it every day. So, but if you don't have that baseline at first, then it's difficult to plan for, "Can I afford long term care in the future?" And then also you need that baseline to figure out, well, "if I do need long term care, my spending will probably drop creating then capacity to pay for it," right?

Kim Zook: Right.

Lindsay Theodore: But if you don't know what you spend where and you don't know how that's going to change over time, it's difficult to then again, plan. So, if you're concerned about long term care, I would encourage you to work with a planner to incorporate some of the changes in your spending that might occur in mid to later retirement and then build in some expenses down the road. This will hopefully give you permission to then spend your money freely in the healthier years of retirement.

Kim Zook: Yeah. And I think a lot about the audience listening, which I think is a mix of retirees and savers.

Lindsay Theodore: And savers.

Kim Zook: And savers. And I remember my parents working with their financial planner to do the spending plan, and it brought a lot of comfort and confidence because the unknown was the health care. They were really overly concerned and really wanted to save while they were in retirement. And so, two things you both touched on the shift in mindset, but also meeting with a professional to help them get a plan in place. They left the meeting, I can remember it clear as day, this is 20 years ago. Knowing one, we have a plan, two our fears and our preparation has paid off.

Lindsay Theodore: Yeah.

Kim Zook: And three I think being flexible and meeting annually to just review that plan.

Lindsay Theodore: Right.

Sudipto Banerjee: Right.

Kim Zook: So, for those in the audience that are interested in taking action now and doing this spending plan, which I definitely can tell you all, I will be doing that, just because I think it's very helpful to facilitate discussions for retirement.

Well, friends, it's hard to believe, but it is time for us to start wrapping up the discussion. I'd like to leave our listeners with some parting thoughts or next steps and ask that you both share some brief takeaways. We'll start with you, Lindsay.

Lindsay Theodore: Sure. So, I think we've talked about, like, lifestyle enhancing services and purchases. In my case, clothing. My husband would be very mad if I don't say that. And streaming subscriptions and all these things can really add up. They can also give you a lot of fulfillment. So, make sure you've taken stock and you're spending money where you actually find value both before retirement and in retirement. And just remember that planning for retirement isn't a set it and forget it endeavor. Over the course of retirement, like we've talked about today, adjustments to spending may occur naturally as you get less hungry as you get older.

Kim Zook: Yes. Sharing meals.

Lindsay Theodore: Exactly. Or some of those changes may become necessary if there's a steep market decline, or an unplanned expense arises, so. But luckily, you're spending decisions are largely within your control. So just make sure you establish that baseline and really be thoughtful and mindful about it.

Sudipto Banerjee: So, I think retirement is like taking any other big steps in our lives, like buying your first home or starting a new business. The idea can be scary, and the uncertainty can be unsettling. But the good news is that people are doing it every day. Everyone figures it out. You just have to be aware and be open to making changes.

I think it takes a few years after retirement for people to figure out, what’s a sustainable cash flow from their savings and what's an acceptable lifestyle to them, the so to speak, retirement equilibrium. The key to navigating these fluctuations is staying flexible and keeping your long-term goals in sight.

Kim Zook: Wow. Thank you both. I just enjoyed this episode so much. You know, research is at the heart of everything we do it T. Rowe Price. So having you on as an economist, thank you so much. Lindsay, your experience working with clients and coaching them through this experience, you know, it's not just about helping them build up a big enough nest egg. So, thank you very much.

Retirement planning isn't just about saving for your future life, it’s also about managing the ups and downs of spending once you've stopped working. By planning for fluctuation, both in essential and nonessential spending, you can increase your chances of enjoying a successful, fulfilling retirement. The key to navigating these fluctuations is staying flexible and keeping your long-term goals in sight.

Again, I'm Kim Zook, thank you for listening. Please tune in to our next episode where we will explore the unique benefits of traditional and alternative investments for your retirement planning. If you like this podcast, please rate us and subscribe wherever you get your podcasts. And remember that a confident retirement starts with asking the right questions.

T. Rowe Price
Retire With Confidence

202503- 4314915