Living Well in Retirement: Building a Strong Foundation

Rising costs of basic living, let alone spiraling health care expenses, make planning ahead for your golden years a wise decision to make sooner rather than later. Without enough due diligence, experts say any plan-of-attack is bound to come up short. Simply put, savers need a clear and well-thought out strategy to live once they are retired. Many will need to start creating a retirement budget years before moving out of the workforce.

With decades to go before moving into retirement, too many families are choosing to simply put off inevitable lifestyle decisions that are bound to come up at some point. The Center for Retirement Research at Boston College has studied just how much working Americans are procrastinating.

As a result, they've formulated the National Retirement Risk Index. Among other considerations, the NRRI takes into account target replacement rates for each family to maintain pre-retirement standards of living in retirement. The benchmark also compares projected as well as target replacement rates to try to figure out how many households are at-risk of falling behind.

By 2016, researchers at the Center estimated half of all working U.S. households ages 30-59 were "at risk" of not having enough to maintain their living standards once they retire.[1] Even more sobering: When explicit healthcare costs are included into such projections, the NRRI's percentage shoots up past that 50% level of at-risk workers.

Of course, living life simply and building savings now makes a lot of sense. At the same time, behavioral scientists often warn that people tend to think they're already tucking away enough, or as much as possible, to support their retirement.

In fact, the 2019 Retirement Confidence Survey[2] by the Employee Benefit Research Institute found that two-thirds of Americans polled felt confident they were doing a good job in terms of retirement savings. Respondents were pre-retirees of 25 years or older, and those already in retirement.

Still, only 42% of those surveyed indicated they'd actually tried to put together a retirement-oriented budget of future living requirements. Another red flag pointing to overly optimistic retirement spending expectations was the fact that just one-in-three of those questioned told the institute they'd looked at calculations related to medical expenses.

Many savers are no doubt reassured when they see headlines of low inflation numbers. Cost increases, however, are relative. Items such as prescription drugs, house insurance, pet care and real estate taxes over the past decade have actually kept gaining momentum for those in retirement, research by the Senior Citizens League shows. It estimates that the so-called buying power of Social Security benefits from 2000-2018 dropped by an eye opening amount of 34%.[3]

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So What Can I Do?

Even those who are cash-strapped and years away from retirement can get a head start on coming to terms with future bills by following a few baby steps right away. Among those commonly suggested by financial pros are:

- Start by duplicating your current household budget, then pare down. Wealth managers and advisors frequently try to engage their clients well-before turning 65 in discussions about setting goals for what they'd like to do in retirement. After all, much of setting realistic lifestyle expectations has to do with aspirations and interests. It's not all about money.

- Do you plan to downsize or move to another area to retire? Retirees frequently prefer to live in a smaller house once their children are grown. If moving out-of-state (or overseas), financial planners like to make sure taxes are couched in any such budgeting conversation. An early consultation with your favorite CPA could prove worthwhile, especially if you'd like to split time between locations.

- Carefully scrutinize your present checking and savings account activities, as well as credit cards. Believe it or not, but even if you don't plan to retire for another 20- to 30-years, many behavioral finance experts say that tracking how you've dealt with money in the past can provide important insights into how you'll handle future nest eggs in retirement.

- Try to tweak your budget as you go. Don't wait until you're about to stop getting a regular paycheck from your employer to update and look for areas to trim -- or add to as lifestyles change.

- As you look for better ways to manage various sources of household income and expenses, make a conscious effort to work the word "discipline" into your budgeting vernacular. Setting targets for paying off loans or gradually improving your family's annual rate of savings can seem more attainable by putting such goals in writing.

- And don't leave out the other side of your household balance sheet planning. Think ahead to big-ticket items you'd like to accomplish, not just over the next few years, but also in retirement. Make a bucket list of ideas to work off, from buying a new car or boat to traveling to places you've never been before.

1. "Trends in Retirement Security by Race/Ethnicity," Center for Retirement Research at Boston College, November 2018 (page 2).
2. "The 2019 Retirement Confidence Survey," Employee Benefit Research Institute (page 3).
3. "Social Security Loss of Buying Power Study," May 2019.