

## Stages of Retirement

Many of us are taught at an early age the key to a successful financial life is to save, save, save. The more money you save for retirement, the more financially comfortable your retirement may be. But what happens once you arrive at retirement? For many people retirement is a time to rethink their relationship with money. If you have spent most of your life saving for the future, re-training your brain to realize the future is here can be daunting. It is important to understand the stages of retirement to help create a retirement spending plan. With proper planning and education you can enjoy retirement without the worry about depleting savings too quickly and becoming a burden on loved ones.

It can be unsettling for retirees to watch investment account balances go down when they initially retire, but this is typical of the first retirement stage. During this “honeymoon” period you are actively traveling and crossing experiences off the bucket list. You might also be paying for health insurance out of pocket if you retired before Medicare age. You volunteer, care for grandkids, travel, and start hobbies that you never had time for in the past. Your budget reflects those new expenses. The money you thought you would save on dry cleaning bills and commuting costs is spent on plane tickets and backpacking equipment. This is what you have saved for all these years, so enjoy this time.

What can be difficult about this initial retirement stage is that proper planning likely involves letting fixed sources such as pensions and social security increase while watching your savings decrease. It takes some work to see your money differently and create a comprehensive, tax-conscious spending plan. During this initial retirement stage often your taxable income is reduced, but you still want to be thoughtful about taxable withdrawals. In general, it is often considered prudent to spend down after-tax dollars before tapping into retirement savings or taking pensions early. Because most retirement savings are pre-tax they will be taxed at the time of withdraw. Finding that balance of taxable income is key.

As your retirement journey continues, you begin to slow down. The trips you dreamed of are now scrapbook memories and your hobbies are well established, with most equipment and tools previously purchased. During this second stage, many retirees stay closer to home and have fewer large expenses. This may be a good time to re-evaluate your budget. Perhaps you could consider taking less from your savings during this period due to decreased costs or increased income from pensions and social security. During this stage, your retirement savings may grow again before you arrive at the typically most expensive part of your retirement.

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The final stage of retirement is when your expenses may rise again due to increased health care needs. This might be a time where you are downsizing your home and moving to a retirement community. Living in a retirement community comes with monthly expenses but you may have the equity from selling your residence. Or you might stay in your home but need assistance with daily home maintenance or have chronic health issues that require special equipment. Creating a spending plan for this stage is as important as the others, but sometimes can be predicted ahead of time, reducing your need for out of pocket cash. Planning for the last phase with tools like Long-Term Care Insurance, or similar insurance products, can make this stage of retirement easier to manage.

As you can see once you reach retirement there is still planning work to be done. Creating a lifelong strategy for pre-retirement savings and post-retirement spending is an ongoing process. Your spending and saving needs change often over your lifetime and even throughout retirement. Having a relationship with a CERTIFIED FINANCIAL PLANNER™ professional that understands your saving and spending needs can provide you and your family with a well-designed plan. We can assist you in developing strategies to save for your dream retirement and help create a tax-conscious plan to spend that savings. Please contact our office to discuss your individual situation.

This article written by Sandra J. Wagner, CFP®. Sandra has been helping people with their finances since 2001. She is a CERTIFIED FINANCIAL PLANNER™ professional and CEO of Wagner Planning.

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