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## November 13, 2023 – Wealth Planning Commentary

### Struggling to Spend More in Retirement?

The transition into retirement is significant and it affects retirees physically and financially. While certain individuals adapt easily to changes in lifestyle, others may face difficulties when moving from a work-oriented to a retirement mindset. A well-documented challenge for retirees involves a shift from a savings to a spending mentality.

In a recent article, Michael Kitces discussed the emotional and behavioral hurdles associated with spending during retirement. External factors like rising healthcare costs, concerns about Social Security solvency, and the uncertainty of future market returns may be attributable to spending less. Some retirees might feel emotional distress when portfolio balances decline when accounts are drawn down. This can instill a fear of spending beyond basic needs. There are some steps that retirees can take to confront and overcome these apprehensions so that they can start enjoying their wealth in retirement.

Individuals with long-term wealth plans can understand their financial picture throughout their projected lifespan. These plans commonly rely on a Monte Carlo analysis to provide a ‘point in time’ probability of success. Individuals can then understand the maximum amount they can spend or guardrail without jeopardizing their financial security. This approach, however, has limitations. A more effective framing to consider is thinking of a Monte Carlo result as the probability of adjustment. A low Monte Carlo result calls for heightened vigilance and more frequent follow-ups, three to four times a year, to assess the need for spending adjustments. Conversely, a higher result suggests a reduced need for vigilance, perhaps a review once a year.

The choice of terminology can significantly influence retirees in their decumulation phase. Thinking of spending categories as core and adaptive may help the client enjoy their wealth a little more. Core spending broadens the traditional definition of essential expenses by encompassing both essential and important expenses. Important, but not essential expenses, include travel related to visiting families and expenditures related to hobbies. Adaptive spending covers all discretionary expenses that one can live without, such as fine dining or luxury purchases. Adjustments may be made to adaptive expenses if the Monte Carlo results signal a need to reduce spending.

Some individuals consistently express concerns about the market and are uncomfortable withdrawing from their portfolio. For these individuals, a guaranteed income helps reduce the fear of spending. This can be achieved with insurance products, though a detailed analysis is recommended. Pensions may also be taken as a monthly payment. The drawback with these options is that the income stream becomes less valuable over time due to inflation. Another option is to postpone social security benefits until age 70 to maximize the inflation-adjusted benefit.

Beta testing retirement may help individuals better gauge what retirement spending feels like. Taking sabbaticals or a series of mini-retirements helps to understand which expenses are core or adaptive. These experiments may help a future retiree feel more comfortable when they are in a decumulation phase… full-time.

Please reach out to your wealth manager to discuss spending in retirement.