

Maximizing Your Dollars in Retirement

Jennifer L. Hunter, Extension Specialist for Family Finance

Developing a monthly budget for your retirement expenses can help you feel more prepared to adjust to rising prices and unexpected expenses.

Feeling financially secure is important at all stages of life. Unfortunately, due to recent changes in the economy many retirees are feeling financially vulnerable. A recent study conducted by Allianz Life Insurance Company found six out of 10 baby boomers fear outliving their retirement funds more than they fear dying.

Stretching Your Retirement Income

During your retirement years, it is important to be watchful of both your assets and expenses. The typical retiree may have income from multiple sources, such as Social Security, personal savings and investments, and employer-sponsored retirement plans such as a pension, 401(k), or 403(b). One of the first steps to maximizing your finances during retirement is to make a list of your monthly income sources and their amounts.

Income Source	Amount (\$)/Month
Total	

For the typical retiree, the amount of monthly income will be fairly consistent. Living on a fixed income can be challenging at times, especially when

faced with rising prices on necessary living expenses, such as groceries, gasoline, and health care. Developing a monthly budget for your retirement expenses can help you feel more prepared to adjust to rising prices and unexpected expenses.

Prior to developing a monthly budget, start by tracking your current expenses. Begin by categorizing your monthly expenses into *fixed* and *flexible* expenses. *Fixed* expenses are approximately the same amount each month. Examples of fixed expenses include monthly mortgage or rent payments, car payments, insurance, and some utility bills. In general, fixed expenses are easy to identify and track. Typically, fixed expenses represent non-negotiable expenses, or those expenses that would be difficult to reduce or eliminate on short-notice. However, individuals normally have more control of *flexible* expenses. Flexible expenses vary in amount on a monthly basis and can be more difficult to identify. Examples of flexible expenses include groceries, entertainment, travel, dining out, gifts, spending on children and grandchildren, and gasoline.

Identifying your monthly flexible expenses is key to establishing a realistic retirement budget. Tracking your expenses for a month will provide a realistic picture of your spending habits. At minimum, you should track your expenses for a full week. It is important to realize that our spending habits vary from the week to weekend and also from week to week during the month. Generally speaking our monthly behaviors become repetitive. Don't forget to track the small expenses. Daily, small, or insignificant expenses can add

up over time. Consider adopting one of the following strategies to track flexible expenses:

- **Start a spending calendar** – Using a calendar, track all of your spending. Be certain to remember the small purchases, such as a cup of coffee or a pack of gum. At the end of each day record your spending and organize your expenses into categories.
- **Carry an expense envelope** - At the beginning of each week, put a new envelope in your purse or vehicle. Save receipts from all of your transactions. If you are paying in cash or do not receive a receipt, write the purchase on the front of the envelope. At the end of each week, organize your receipts into expense categories.
- **Designate an expense container** – Identify a specific container for receipts. Similar to the expense envelope, maintain all receipts and make a note of cash transactions. At the end of each day, place the receipts in the expense container and categorize expenses on a weekly basis. This can be helpful, especially if you are working with a spouse to track expenses.

At the end of the month review your expenses.

Can you identify at least one category where you are spending more than you realized? Are you surprised by how much you spend on small purchases (impulse buys which cost \$5 or less)? Can you identify one or two spending categories where you can reduce expenses?

Based on your retirement income and spending log, develop a budget for the next month. A *budget* is simply a plan for your money. Make a list of categories for your spending plan based on your fixed and flexible expenses. Consider adding a category for *occasional expenses*. Occasional expenses occur periodically throughout the year, including holiday and birthday gifts, as well as expenses that you may pay on quarterly or yearly basis, such as automobile insurance or vehicle maintenance. You can develop an accurate estimate of your yearly occasional expenses by using a 12-month calendar. Look through each month; think about additional expenses which may occur; and estimate a cost. Total all of your occasional expenses for the year and divide by 12. This is the amount that you would need to save each month to be prepared for when these expenses occur.

Once you have a list of all expense categories, “spend” your available income for each month on paper, before the start of the month. Make certain to cover necessities first. Retirement budgets can often

be tight, but if you do not have an emergency fund in place, consider saving for emergencies each month.

After you establish your budget, continue to track your spending to make certain you are staying within the allotted amount. Remember, your budget is a work in progress; you will want to review your budget at the end of each month and reallocate your income if necessary.

Maximizing Your Retirement Assets

Tracking your spending and developing a monthly budget can help you stretch your retirement income. However, during retirement it is also important to preserve or maximize your retirement assets. *Inflation*, often known as the silent thief, is the general rise in the price of goods and cost of living. Overtime, it can reduce your buying power and erode your retirement savings. Depending on the amount of your assets, personal risk tolerance, retirement goals, and anticipated length of retirement, you may also want to consider a balanced portfolio with a mix of fixed-income investments, such as certificates of deposit and money market accounts, as well as stocks, bonds, and mutual funds. Diversifying your investments can help improve your long-term return and protect against inflation.

There are several strategies for investing during retirement. Prior to investing in any asset, be certain that you know and are comfortable with the risk of the investment. Assets which have the potential of yielding the greatest returns are often the most risky and can result in significant loss of principal. Recovering financially from loss of principle during your retirement years can be very difficult. Generally, during retirement you want to focus on conservative investments. Prior to selecting a retirement investment, ask yourself the following questions:

1. How comfortable am I with the risk associated with this investment?
2. If I lost a portion of my principle, could I financially recover?
3. Is there a chance I may need this money soon?
4. Will this investment help me work toward my retirement goals?

Many different investment options exist, and it is important to find the right mix for your specific situation. Often the key is to invest in several different assets to maximize your return while limiting your risk. Be cautious when considering investment options for your retirement assets; make certain that you are aware of the terms or “fine print” of the investment.

To maximize your retirement dollars, it is important to revisit your financial situation on a regular basis, and make changes to help you continue moving in a positive financial direction.

Consider the following options:

- **Certificate of Deposit Laddering** - A certificate of deposit or CD is a fixed-income investment, meaning you are guaranteed a specific rate of return. Currently CD rates and their annual percentage yield (APY) are very low. However, longer term CDs typically pay a higher APY. Consider laddering or investing in multiple CDs with staggered maturity dates to maximize APY from CDs, but also still provide you with access to cash. When considering a CD, call several banks to compare rates and maturity dates. Schedule an appointment at the bank; CD rates can be negotiable.
- **Annuities** – An annuity is purchased through an insurance company. There are several different types of annuities and riders or additions that you can purchase. Therefore, it is important to understand the terms of the annuity you are considering. Most of the time, you purchase an annuity with a lump sum of cash. In exchange, the life insurance company pays you a monthly income for a defined period of time. If you die before the defined period of time, the life insurance company keeps the remainder of the investment. In addition to understanding the terms and options of the annuity, it is important to research the life insurance company and compare fees between companies. Typically with an annuity you lose control of your funds.
- **Income Replacement Funds** – An income replacement fund is a type of mutual fund and is similar to an annuity, because it provides monthly payments. A maturity date for the mutual fund is selected when the fund is purchased. Typically, the money within the fund is invested more aggressively in the early years, and the investments become more conservative closer to maturity. Monthly payments are based on length of time until maturity and the fund's performance. This helps preserve your principal for as

long as possible. Unlike an annuity, an income replacement fund can be sold at any time. As with any investment, be certain to compare fees and fund performance.

- **Stocks and Bonds** – Working with a financial advisor, you may consider purchasing a mix of stocks and bonds. You will want to select a portfolio which aligns with your retirement goals and determine a preset withdrawal schedule to support living expenses.
- **Money Market Accounts** – A money market account is a safe investment with a guaranteed return, which normally requires a minimum balance and limits the number of transactions on the account. Although the yield is typically very low, it is normally more than interest earned on a traditional savings account. A money market account provides you easy access to cash.

As you navigate your retirement years, it is important to be proactive in managing your spending and protecting and preserving your assets. To maximize your retirement dollars, it is important to revisit your financial situation on a regular basis, and make changes to help you continue moving in a positive financial direction.

Sources

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