

Balancing Retirement Spending

Enjoy Now or Save for Later

By Lawrence C. FIORELLA
Financial Advisor

THE DEBATE between spending in retirement and saving for retirement is a critical one. Both strategies come with their own set of benefits and risks. Finding the right balance, including creating a personalized retirement budget, can determine whether your retirement years are financially secure and fulfilling. Striking the right balance involves understanding how each approach impacts your financial future and ensuring that your retirement income plan aligns with your lifestyle and anticipated expenses. This careful planning is key to enjoying a comfortable and financially stable retirement.

THE BENEFITS FOR SPENDING IN RETIREMENT

For many, retirement is a long-awaited milestone — a time to enjoy the rewards of decades of hard work. Spending in retirement can provide a range of benefits, from enjoying new experiences to maintaining your health and well-being:

Enhanced Quality of Life: Retirement is often viewed as a reward for years of diligent work. By spending on travel, hobbies, and experiences, retirees can enjoy their newfound freedom and make the most of their golden years. Housing costs, for example, can take up about one-third of a typical retirement budget. Considering options like relocating to a less expensive area or downsizing can free up resources for other life-enhancing activities.

Immediate Gratification: Enjoying your retirement now rather than later can provide immediate satisfaction and improve your overall happiness. After years of hard work, it's only natural to want to enjoy the fruits of your labor. Understanding your annual income before retirement allows for better financial planning and informed spending decisions. For instance, many retirees aim to replace about 80 percent of their pre-retirement income to maintain their standard of living.

Health and Well-Being: Investing in your health, whether through fitness classes, nutritious food, or necessary medical treatments, can play a crucial role in maintaining a high quality of life. Addressing these needs early on can help prevent potential issues down the road and contribute to a longer, healthier life.





While enjoying retirement is essential, prudent saving ensures your financial resources last throughout your retirement.

THE IMPORTANCE OF RETIREMENT SAVINGS

While enjoying retirement is essential, prudent saving ensures your financial resources last throughout your retirement:

Longevity Risk: With people living longer than ever, your retirement savings need to stretch further. Without sufficient funds, there's a risk of outliving your savings, which could lead to financial strain and a reduced standard of living later in life. According to the 2020 U.S. Census, the population aged 65 and over reached 55.8 million, representing 16.8 percent of the total population. This significant growth highlights the importance of planning for a longer retirement as the number of older Americans continues to rise.

Unexpected Expenses: Health issues, emergencies, or unforeseen circumstances can arise at any time. A well-stocked retirement fund acts as a safety net, helping you cover unexpected costs without sacrificing your lifestyle or relying on external support. For example, in 2022, older Americans averaged \$7,540 in out-of-pocket health care expenditures, a 47 percent increase since 2012. This is significantly higher than the \$5,850 average spent by the general population, underlining the need for substantial retirement savings to cover these escalating health care costs.

Inflation and Rising Costs: Over time, the cost of living tends to increase due to inflation. Over the last decade, the average annual inflation rate was approximately 2.87 percent, steadily eroding purchasing power. Without adequate savings, it may become challenging to maintain your standard of living in the future. Ensuring your retirement fund accounts for inflation is crucial to preserving your financial security.

Utilizing tools like an individual retirement account (IRA) can be beneficial, offering tax advantages and helping to build a robust retirement fund alongside workplace retirement plans.

STRIKING THE RIGHT BALANCE IN YOUR INVESTMENT STRATEGY

Finding the right balance between spending and saving in retirement involves careful planning and thoughtful choices. Here are some strategies to help manage both effectively:

Create a Holistic Retirement Plan: Collaborate with a financial advisor to build a plan that considers your expected lifespan, lifestyle goals, and potential expenses. This plan should include a budget that covers your daily spending and long-term savings. Additionally, think about how to allocate your assets allocation — balancing stocks, bonds, and cash — to match your risk tolerance and retirement objectives.

Set a Realistic Spending Budget: Determine how much you can comfortably and sustainably spend each year. Take into account your travel plans, hobbies, and healthcare needs. Let this budget guide your spending choices, helping you enjoy retirement without outstretching your finances.

Develop a Smart Withdrawal Strategy: Plan how you'll withdraw funds from your retirement accounts. This might involve setting up a mix of regular withdrawals and

Finding the right balance between spending and saving in retirement involves careful planning and thoughtful choices.



strategic lump-sum withdrawals for bigger expenses. Keep in mind the tax implications and how they affect your overall financial situation.

Review and Adjust Regularly: Your needs and circumstances will likely change over time. Make it a habit to regularly review your retirement plan and adjust it as needed to reflect changes in your health, lifestyle, or financial situation. Consider how your retirement age might impact your living costs and adjust your plan accordingly.

Explore Additional Income Streams: Look into ways to supplement your retirement income, such as part-time work, rental income, or investment returns. Diversifying your income sources can take some pressure off your savings and give you more flexibility in your spending.

Balancing spending and retirement saving in retirement is a delicate act that requires thoughtful planning. While it is important to enjoy the present, it's equally crucial to ensure you have enough resources for the future. Leveraging retirement savings plans like 401(k)s and IRAs can offer valuable tax benefits and, in some cases, employer matching contributions that boost your financial security. By crafting a well-rounded retirement strategy that addresses both your immediate wants and long-term needs, you can look forward to a fulfilling and financially secure retirement.

IMPORTANT DISCLOSURES

The information included in this document is for general, informational purposes only. It does not contain any investment advice and does not address any individual facts and circumstances. As such, it cannot be relied on as providing any investment advice. If you would like investment advice regarding your specific facts and circumstances, please contact a qualified financial advisor.

Any investment involves some degree of risk, and different types of investments involve varying degrees of risk, including loss of principal. It should not be assumed that future performance of any specific investment, strategy or allocation (including those recommended by HBKS® Wealth Advisors) will be profitable or equal the corresponding indicated or intended results or performance level(s). Past performance of any security, indices, strategy or allocation may not be indicative of future results.

The historical and current information as to rules, laws, guidelines or benefits contained in this document is a summary of information obtained from or prepared by other sources. It has not been independently verified, but was obtained from sources believed to be reliable. HBKS® Wealth Advisors does not guarantee the accuracy of this information and does not assume liability for any errors in information obtained from or prepared by these other sources.

HBKS® Wealth Advisors is not a legal or accounting firm, and does not render legal, accounting or tax advice. You should contact an attorney or CPA if you wish to receive legal, accounting or tax advice.



Lawrence C. Fiorella

Financial Advisor, HBKS® Wealth Advisors

Lawrence Fiorella serves as a financial advisor in the HBKS® Fredonia, New York, office. He specializes in providing personal financial planning, including investments, retirement, protection planning, retirement income, estate planning strategies, education funding, tax management strategies and wealth preservation strategies. He can be reached at (716) 672-7800 or by email at lfiorella@hbkswealth.com

Investment advisory services are offered through HBK Sorce Advisory LLC, doing business as HBKS® Wealth Advisors. NOT FDIC INSURED - NOT BANK GUARANTEED - MAY LOSE VALUE, INCLUDING LOSS OF PRINCIPAL - NOT INSURED BY ANY STATE OR FEDERAL AGENCY