How Much Should You Expect to Spend in Retirement? - Transcript

Tom Mullooly: In episode 106, we're going to talk about how much should you expect to be spending in retirement.

Welcome to the Mullooly Asset Show. I'm your host Tom Mullooly, and this is episode number 106.

Very interesting article in The Wall Street Journal yesterday written by Dan Ariely. If you don't recognize that name, he is a professor from Duke University. He teaches behavioral economics. He also teaches decision making. Can you believe that, how to make decisions. He wrote a very famous book about 10 years ago called Predictably Irrational. The article in The Wall Street Journal that he co-wrote talked about how much do you think you're going to spend in retirement, and the subtitle was Probably More Than You Expect.

We're not so sure about that. The gist was most people underestimate the percentage of income that they're going to need in retirement. What they did was they polled a group of people, I think it was about 1,100 people. The answer that came out most often was, "We're going to need 70% of our current income in retirement to meet our expenses."

When they interviewed people after doing the poll, most people who gave that 70% answer admitted they had heard that number somewhere before, so they just assumed that that was the generally-accepted percentage, that you're going to spend 70% of what you're spending now.

When they questioned people a little further about what they actually want to do in retirement, they started getting some really different answers. People wanted to travel. They want to give gifts to their kids or spend money with their grand-kids. They want to eat out more. All of that stuff added up to actually 130% of their current expenses, meaning 30% more than what they're spending now before they're retired.

If you're working in those years before retirement, everybody is, then the whole point of the article was, hey, if you're working five days a week, then you're not spending or consuming those five days a week. It's on the weekend where we do the things that we want to do. We want to spend money. We want to go out. We want to have dinner out. We're consuming more, but when you're retired, every day becomes one of those weekend days, and so instead of being a consumer two days a week, now you're going to be a consumer maybe seven days out of the week.

Our response to this is we've seen a lot of people go through the work phase, pre-retirement, and then actually retire. There are some people who spend money like a drunken sailor for their first year or two or even three when they're retired, but even that gets tiring after a short while. Travel is great when you're a little younger, when you're healthier and you're able to do it. It's hard to do it, it's hard to take big trips and travel a lot when you're getting older.

What we have been trying to discuss with our clients is, look, there's probably going to be a period of time in those first few years after you retire where your spending is above average. Just get used to it. You may have to do that for a while if you want to go out more, travel more, do some of the things you've been putting off around the house, things like that, but at some future time, that spending is going to start dropping, and you will probably be below average in your spending.

Is 70% really the right number? I don't know because everything is going to cost more in the future. The folks that are thinking in general 70% of our current expenses is what we'll need in retirement, that number might be a little too low. You got to factor inflation into everything that you're doing. We think that that 130% that they talked about in the article is just way too high. That might work for the first couple of years, but not over the period, if you're going to be retired, I mean, you could be retired 20, 25, maybe even 30 years. We think it's going to be more than 70, not quite 130%. That number might be, a better number might be somewhere between 70-100%, something a little more realistic.

Of course, like all of these financial planning articles that you see in The Wall Street Journal, and we'll link to it in the show notes, the comments, the comments are the best part of these articles. They're spectacular. We saw a lot of people who cautioned other readers, "Hey, just make better choices," or the one we saw over and over, "Just learn to live beneath your means." I mean, we've seen that over and over, and that's really good advice. That's how you save money anyway is living beneath your means.

That's it for episode 106. Thanks for watching. We'll catch you next time.