Spending in retirement: How much is too much when it comes to dipping into savings?

NEWS

Steven Podnos

For FLORIDA TODAY

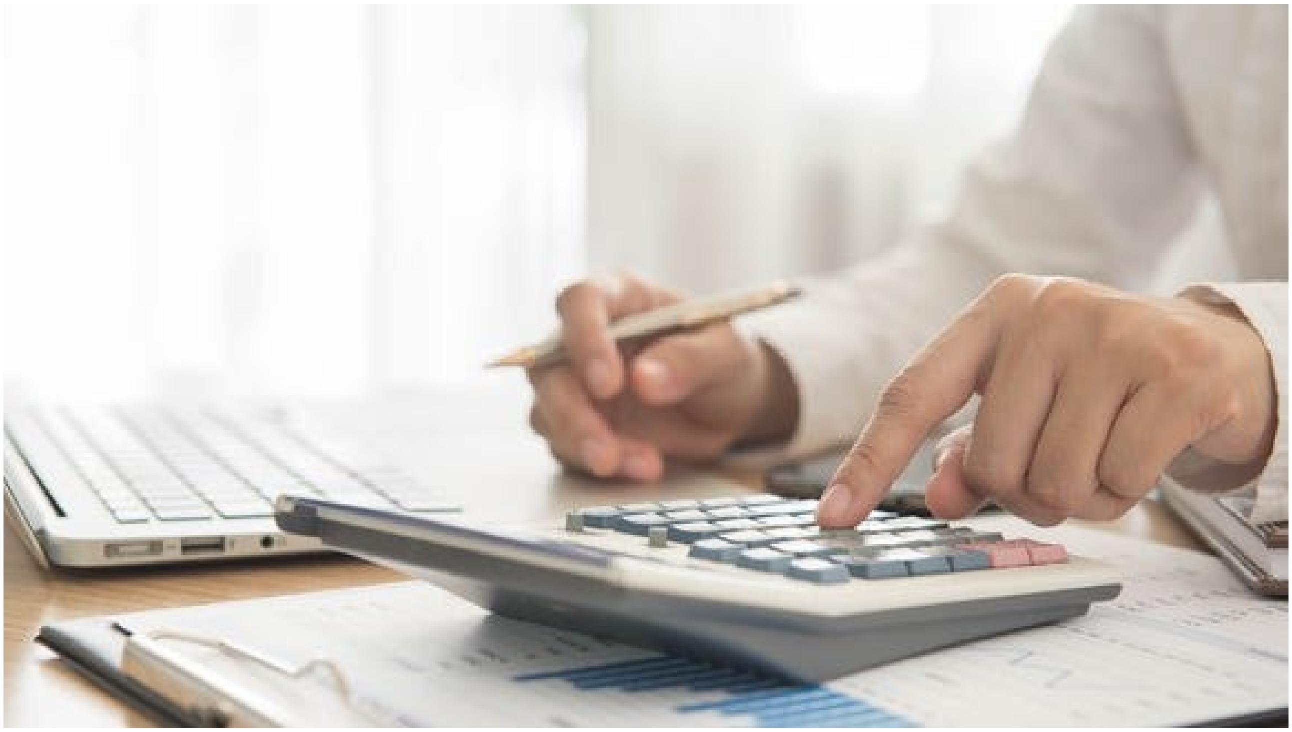
0:44

1:39

SKIP

Q: I've read that I can spend about 4% of my savings when I start retirement. Is that a hard recommendation?

Q: Not really. We do recommend starting retirement withdrawals with a certain percentage of the total savings. But, coming up with an initial percentage of savings that one can withdraw safely over a retirement lifetime is decided on by several factors. Even more factors then adjust future distributions and are different for every family. Distributions are then adjusted over time considering projected lifespans, inflation and other variables. I find some people "underspend," and some want to "overspend" quite frequently.



It is not unusual to work with some families that could spend more than they do during their retirement years. These families have usually lived well below their means during the accumulation years -- which is usually a big reason why they did so well in saving.

As they begin to rely on distributions from their portfolio, these families often take less than recommended, year after year. When asked about using more of their portfolio income, they often reply “It is for the kids, I don’t need it.”

There is certainly nothing wrong with doing this -- we all make choices on the best use for our money constantly. If you get more gratification by leaving a financial legacy for the kids than using it on yourself, then that’s fine. However, I often encourage these families to gift earlier in life when it may mean much more to their children and other heirs.

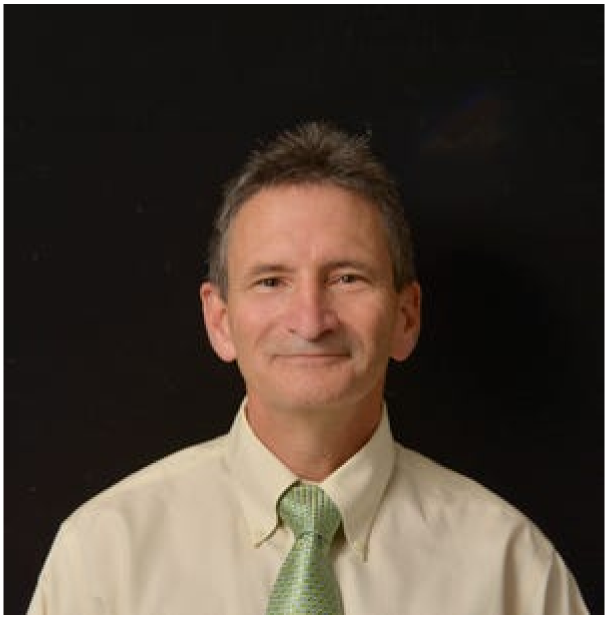
More: Fixed income: What is it, and what do I need to know to safeguard my security?

Conversely, there are families that clearly want (and often do) spend more than is recommended based on their savings and age. This might be a very large problem later in life, when money really can’t be made up and a drop in lifestyle then might be painful.

An interesting question comes up for early retirees who want to spend more than recommended. I had a recent question from a woman who had just reached five years of disease-free survival from a cancer. She wanted to spend more than the recommended 5% a year from her portfolio (that I had suggested was reasonable).

She had some very specific reasons to spend more, traveling extensively and some other goals. She felt (reasonably) that she did not know if she would be healthy enough to have a long-life expectancy and wanted to enjoy her money while she was fully able to.

We discussed that her wishes were totally reasonable if she understood that this spending might lead to some belt tightening later on. I told her we'd need to carefully monitor what was happening to her portfolio in the early years.



These questions pertain to most of us. Can we spend a greater amount earlier in retirement if we accept that we may have to spend less later? Every family is different, and you should get some careful advice on this topic. We know that most individuals spend less after reaching their mid-eighties (usually due to health issues). But you should begin retirement with a good idea of the possibilities and probabilities of what can happen to your savings at different distribution rates. Good advisors know of additional tools that can be used to boost income late in retirement if needed, such as the addition of immediate annuities and reverse mortgages.

So, the answer to your question is (no surprise): It depends.

Steven Podnos is a fee-only financial planner in Central Florida. He can be reached at Steven@wealthcarellc.com and at www.WealthCareLLC.com.