

The Hard Truth About Retirement

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The Hard Truth About Retirement

By Scott Chan (see bio at end)
June 11, 2018

(BW: Although this article is written for Americans, Canadian readers may find the commentary useful, interesting, and enlightening.)

If you are worried that you do not have enough money set aside to live comfortably in retirement, you are not alone.

According to a recent survey by the American Institute of Certified Public Accountants, 41% of CPA financial planners report that running out of money is their clients' top concern about retirement, even including those clients who have a high net worth.

Below, we examine how your spending needs will change when you reach retirement age and, if you are a retiree, we explain how your spending habits might compare to your peers. Fact is, as we age, our spending habits evolve. How much we spend at age 65 is different than when we are 25. If you are in retirement or nearing retirement, and you are wondering how your expenses stack up to the national average for people of your age group, the government has information for you.

Of course, where you live will affect the cost of living, but the government data still gives a decent national overview. For folks a bit younger, it is also useful to get an idea of how much you may need in the future.

According to Uncle Sam

According to data from the U.S. Bureau of Labor Statistics (BLS), the average "older household" spends about \$45,800 per year. This averages out to about \$3,815 per month. (An older household is a household whose head is 65 or older.)

For comparison, the general population spends about \$57,300 per year. So the good news is, your spending needs will likely go down once you reach 65.

In case you are wondering, households headed by someone in the range of 45-54 years old spend the most per year. Likely, many parents with college-age children fall within this age range.

A side-note here. To be clear, the BLS statistics track households, not individuals, so it is not a perfect capture of older people's spending habits. For example, an elderly couple living with three teenage grandchildren would qualify as an older household. However, the government data still give a good general view.

The Big Chunk of Spending

Older households are more likely to own their homes than the general population: 77% vs. 62%.

Older households also spend the most money on their homes: \$15,886 a year. At retirement age, most older Americans have already fully paid off their mortgage, but expenses such as property taxes, insurance, home supplies, and repairs and maintenance do add up.

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Not surprisingly, older households spend a lot on health care. The average older household spends almost \$6,000 per year in medical expenses. The general population spends \$4,612. This category includes insurance premiums and uncovered medical expenses. Rising health-care costs are a serious concern. Older households spend less in other areas.

Where the Savings Come In

About 84% of older households own or lease at least one vehicle, comparable to the general population, but the annual transportation cost is much lower: \$6,814 to \$9,049. This is likely because older people, on average, drive less. For example, retirees do not need to drive to work every day.

Older households also spend less money on education and entertainment. They also spend less on fees and admissions, likely due to senior discounts.

On the income side, not surprisingly, Social Security and private and government retirement payments on average make up a good chunk (more than 40%) of older households' income. Salaries and wages make up 43%. Remember, these numbers are averages and older households can contain working adults under 65. In practice, for many retirees, Social Security and pension payments are the main sources of income.

Rethink Retirement!

For people with investment accounts, dividend, interest, and capital gains can make a big difference in income.

A \$500,000 retirement account with a dividend yield of 3% would generate \$15,000 in (pre-tax) dividend income a year. That is before any capital gains.

Americans are living longer than ever; on average you will need to have around \$46,000 to spend per year. Your investments could provide a good chunk of the average yearly spending needs.

But the hard truth remains: you cannot count on Social Security to support a comfortable retirement. You must rethink your needs. You need a more reliable plan to ensure a lifetime of income. And, regardless of your age, you need to find one *now*.

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ABOUT THE ANALYST



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Scott Chan moved from China to the U.S.A. with his family at the age of ten. He passed the rigorous entrance exam and attended the merit-based Stuyvesant High School, widely held to be the best public school in New York City. He earned undergraduate degrees from New York University followed by an MBA degree from the Zicklin School of Business at Baruch College.