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Rethinking Retirement

How Much You Really Need to Retire

Spending on food drops in retirement, not because retirees are eating less but because they have more time to shop and compare prices.

By Jane Bennett Clark, From *Kiplinger's Personal Finance,* August 2014
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Back when I was packing lunches for three kids, the deli counter was a regular stop on my circuit around the grocery store. Inevitably, I found myself in line behind one or another older couple who took what seemed like forever—sampling this, discussing that—before making their selection. ("One-eighth of a pound of ham, please. Thinly sliced!") I may have been in a hurry, but these folks had all the time in the world.

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That leisurely approach explains, in part, why you may be better off in retirement than you expect. In several studies on household consumption, Erik Hurst, of the University of Chicago, and Mark Aguiar, of Princeton University, report that spending on food drops significantly in retirement, not because retirees are eating less but because they have more time to shop and compare prices (and, apparently, agonize over choices at the deli counter).

The savings don't extend only to meals eaten at home. Retired people spend 31% less on eating out than the still-working, according to Hurst and Aguiar, not because they're scrimping but because they no longer grab $8 sandwiches at lunch places or stop for takeout on the way home from work. Instead, they

reserve their eating-out dollars for table-service restaurants.

As for other expenses, retirees spend less on costs connected to commuting and wardrobe maintenance, such as dry cleaning, but as much or more (at least at first) on leisure activities, such as going to the movies, golfing and travel. Because the savings in some categories outweigh the spending in others, "on average, people are doing pretty well," says Hurst.

Make it personal. That's reassuring, but it also reinforces a concept long studied by researchers and already known to the rest of us: Consumption depends on your situation. When you have teenagers, you spend more on food, clothes and education than you do as an empty nester. When you're paying a mortgage, you spend more on housing than you do once your home is paid off. When you're throwing everything you have at retirement saving, you're not jetting off to Europe. In retirement, you may splurge on travel at first; later, you pay more for health care.

To some extent, retirement planners take such considerations into account. For instance, many recommend that you save enough to replace 80%—not 100%—of your preretirement income over a 30-year retirement. The formula assumes that you will no longer be paying payroll taxes, saving for retirement or covering work costs, and that you may be in a lower tax bracket.

It also assumes that your spending will stay constant (adjusted for inflation) throughout a 30-year span, as opposed to fluctuating according to your circumstances. That assumption is no truer after you retire than it is before, says David Blanchett, head of retirement research at Morningstar, and it can lead you to overestimate your income target. In fact, many families can get by on only 60% of preretirement income.

For my part, I mostly bring my lunch to work and prepare my other meals, so I don't see my food costs going down much. Few would accuse me of spending lavishly on work outfits—no savings there. Because my company subsidizes my commute, my transportation costs could actually go up. But since I plan to downsize and retire my mortgage, my housing expenses will certainly go down. Overall, I think my own replacement rate will be closer to 70%. I am going to run the numbers to be sure.

And that's what all of us should be doing, says Blanchett. "Retirement is the most expensive purchase you're ever going to make. It makes sense to figure out what it's really going to cost."

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