



# Planning for Retirement? Here's How to Estimate Your Expenses More Accurately

**The better you understand how you currently spend money, the easier it will be to anticipate future spending.**

Over 4 million Americans have turned (or will turn) 65 this year. The same is true for 2027. If you're among the "silver tsunami" and putting last-minute touches on your retirement plan, estimating your post-retirement expenses is an important piece of the equation. While you may not be able to get it down to the penny, here's how to estimate your expenses more accurately.

## **Begin with an inventory of current spending**

Understanding how you spend money now can help you estimate how much you'll need in retirement. Here are some tips:

- Track your monthly expenses for three to six months.
- Categorize your spending into essential spending (housing, food, transportation, and insurance) and discretionary spending (hobbies, travel, and entertainment).

## **Weigh your plans for retirement**

You (probably) don't have a crystal ball and can't see into the future, but based on your "ideal" retirement, ask yourself the following questions:

- Do I plan to downsize my home? If so, calculate how much downsizing will likely save in monthly expenses.
- Will I still have a mortgage? If not, remember that you'll still need to cover homeowners insurance and property taxes.
- Am I relocating to a less expensive area? If that's the case, check the average cost of living in the area you're moving to.

- Do I plan to travel more? If you plan to travel, now is the perfect time to ensure you have enough put away to get on the road.
- Do I plan to work part-time while collecting Social Security? If so, learn how earned income can impact your Social Security benefits.

The answers you come up with will help you understand whether you'll spend more or less in retirement than you currently spend.

### **Factor in the cost of staying healthy**

As you may regularly hear, people often underestimate the cost of healthcare in retirement. Budget for it like any other expense, understanding that the high cost could surprise you. You'll want to include some health-related expenses in your retirement budget, including:

- Medicare premiums
- Supplemental insurance (Medigap)
- Out-of-pocket costs for prescriptions, dental, and vision
- Long-term care, if you're not currently insured for it

### **Factor in inflation**

Inflation takes a bite from everyone's budget, but you don't have to let it sneak up on you. Here are some things to remember:

- Don't budget using today's prices. A safer bet is to figure 2% to 3% for annual inflation. Even with Social Security cost-of-living-adjustments (COLAs), factoring in inflation can help ensure you're not caught by surprise.
- The inflation rate for medical costs tends to grow faster than other categories, so plan for it by assuming a healthcare inflation rate closer to 6%.

### **Include taxes**

Taxes are alive and well in retirement, including those you may owe on Social Security benefits, retirement account withdrawals, capital gains, and state taxes (depending on where you live).

Make a list of all the taxes you may owe, then consider working with a tax or financial planner to minimize your liability.

### **Big-ticket items**

Aside from your day-to-day living, you will likely face some big-ticket expenses. You can take the sting out by planning for them. As you consider potential expenses, don't forget:

- Home repairs and renovations
- A new vehicle
- Emergencies

- Travel
- Special occasions

### **Your budget**

Don't forget to break your budget down into two expense types: essential and discretionary. While they're all a part of the same budget, you can cut a portion of discretionary spending in months when finances are tight.

Whether you're nearing retirement or already there, be ready to tweak your budget as needed. Building a budget you can live with is all about being prepared to pivot when necessary.