

Mastering the Transition from Saving to Savoring for Retirement

While at a family function over the summer, I was pulled aside by an older relative who wanted to pick my brain about retirement. Specifically, he was in great financial shape, was able to cover his fixed expenses solely from his guaranteed income streams but was having trouble loosening up the purse strings and spending the money in his retirement accounts.

While certainly not a catastrophic problem, it's a challenge that is more common than you might think. Which is that, for those savers who did a good job building a nest egg throughout their earning years, it can be difficult to switch from an accumulation mindset to decumulation mode.

The Decumulation Paradox

There have been multiple studies related to the difficulties that many retirees face in spending down their assets. One such study, by the Investments and Wealth Institute, found that the wealthiest retirees (identified as those with a minimum of \$500,000 in non-housing related financial assets) spent 47% less than they could actually afford to spend!

I've observed this amongst my own clients, as well. The shift from saving to spending is particularly challenging for those who have diligently saved throughout their lives. Consider the irony of dedicating years of tireless work, frugality, and possibly sacrificing meaningful moments in pursuit of deadlines, only to realize that your amassed wealth surpasses your actual needs, and you find it difficult to actually spend what you've saved.

For those on the brink of retirement or already immersed in it, and dealing with this conundrum, below are my best tips.

1. Know Your Numbers

Confidence in your retirement plan is essential for liberally spending and enjoying your money. Understanding your comfortable spending threshold, the assumptions underlying it, and having safeguards against unexpected risks are crucial.

Obvious biases aside, the first step is to hire a Certified Financial Planner™ who can run a detailed plan for you and give you insight into how much you can safely afford to spend each year.

That being said, even those who do work with an advisor, such as my relative, and already know how much they can afford to spend, still have difficulty spending. Those in this situation may find that future unpredictability is what's holding them back.

2. Hedge Against Risks

A leading cause of retirees not spending as much as they otherwise could in retirement is the subconscious tendency to self-insure against potential financial shocks, either market-driven or circumstantial.

One of the biggest circumstantial risks that retirees face is needing long-term care, an expense that can exceed \$100,000 per year, according to the Mutual of Omaha's most recent Cost of Long-Term Care Services study. Although long-term care policies are often perceived as expensive, they encourage more liberal spending from remaining savings by providing a safety net.

Similarly, market events, such as the broad stock and bond market downturn in 2022, can be jarring to those who are relying on their portfolios for income. Integrating steady income sources into your retirement strategy can mitigate these concerns. A portfolio bond ladder or even select annuities can provide a sense of security, and encourage the spending of remaining assets.

3. Plan Intentionally for Retirement

Unlike stumbling into a career in your youth, retirement should be approached with intentionality. You don't need to know what you are going to do for the next 30 years of your life, but planning for the years ahead can be a powerful step in the direction of beginning to use both your time and your money intentionally.

Even for retirees who otherwise feel content in their spending, thought and intentionality can amplify the retirement experience. A worthwhile exercise is to reflect on recent experiences that brought true joy, and then consider how you can use your money to either bring that into your life more regularly, or 10x the experience.

For example, a client of mine loves celebrating her birthday, and enhances the experience each year by paying for her closest friends and family to join her on a birthday trip. One year, she enhanced it even further by taking her best friend shopping and buying them each an extra special piece of jewelry, a surprise that brought her friend to tears and created a lasting memory for the two of them. Another year, she surprised everyone by upgrading their seats to first class.

At the start of every year, entrepreneur Jesse Itzler sets one big, year-defining goal for himself, what he calls a "Misogi", as well as several small, out of the ordinary mini-adventures. For Jesse, these tend to be athletic pursuits, but the concept could easily extend to travel, paying to learn something new, or a year of volunteering and giving. Maintaining a bucket list and approaching your retirement with a goals mindset will lead to spending more of your money, more intentionally.

4. Challenge the Saving Mindset

If the notion of spending beyond what you absolutely need feels wasteful, reflect on where that feeling may be coming from. By the very nature of what those who are well-positioned in their retirement often read about personal finance, most of us are conditioned to believe that saving money and being frugal is the highest virtue. It's this mindset that can subsequently hold retirees back from enjoying their money to the fullest.

Ultimately, there is no distinctly negative consequence to not spending your money in retirement. For those retirees who find themselves hesitant to spend what they've accumulated, the primary hurdle to overcome is psychological. In a world where the narrative to "save, save, save" drowns out all else, it's all too easy to overlook the equally valid notion that there is no merit in living a more modest life than your means allow. Yet, with careful planning and conscientiousness, this obstacle can be overcome, paving the way for a gratifying retirement journey.

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