

Cost Effective Retirement Tips

In researching the costs of retiring and the stress associated with worrying about having enough money to last, we ran across the article below published in U.S. News written by Emily Brandon. We added notes where applicable.

21 Ways to Cut Expenses in Retirement

Few Americans are saving enough to finance a retirement that could last 30 years or more. Workers who haven't accumulated enough to maintain their current standard of living have two choices: delay retirement or learn to live on less money. Those willing to put in a little effort to downsize big and small expenses may be able to get by just fine with a smaller retirement stash. Here are some frugal strategies retirees can employ to stretch their nest eggs:

- 1. Downsize your home.** Once your kids move out of the house, you no longer need a multiple-bedroom home near a good school district. "It's not just the mortgage but all the maintenance," says Jane Young, a certified financial planner for Pinnacle Financial Concepts in Colorado Springs, Colo. "A lot of people like to move into a townhouse where they no longer have to take care of a huge yard." Consider downsizing to a smaller home or condo and padding your nest egg with the extra income. (See related document "Is Downsizing for You?" and call us for assistance in determining what is right for you.)
- 2. Ditch a vehicle.** Eliminating a daily commute is one of the biggest perks of retirement. Couples may no longer need two vehicles when they don't travel to separate offices. Ditching a car also will cut your insurance and car maintenance bills. Some retirees who can't or don't want to drive can even go carless.
- 3. Take required minimum distributions.** Those ages 70½ or older must take required minimum distributions from retirement accounts each year. The withdrawal amount is calculated by dividing your individual retirement account and 401(k) balances by your life expectancy, as determined by the Internal Revenue Service. The penalty for failing to take out the correct amount from your retirement accounts is steep: a 50 percent tax penalty, plus income tax on the amount that should have been withdrawn.
- 4. Spend taxable accounts first.** You don't have to pay income tax on the money in your 401(k)'s and IRAs until the money is withdrawn. But many types of gains outside retirement accounts are taxed each year. Minimize your tax bill by spending money outside your retirement accounts first. Also, consider

strategically spacing your retirement account withdrawals throughout retirement to control your tax burden.

- 5. Scrutinize investment fees.** Fees and expenses diminish investment returns. Even after you retire, it can pay off to seek out investment options with lower expense ratios and fewer fees. "A lot of times index fund expenses are every low—half of 1 percent," says Robert Krakower, a certified financial planner in Huntington Beach, Calif., and author of *Redefining Retirement for a New Generation*. "If you have a mutual fund that is changing you 2 percent, try to narrow your expenses." Also, take care to avoid banking fees in general, including trading fees and ATM or overdraft charges on your checking account.
- 6. Sign up for Medicare on time.** Seniors can sign up for Medicare during a seven-month period beginning three months before their 65th birthday. Fill out an application right away to avoid a Medicare Part B premium increase of 10 percent for each 12-month period of delayed enrollment. Seniors who are still working and receive health insurance through their employer after age 65 need to enroll within eight months of leaving the job to avoid the penalty.
- 7. Find the best Medicare Part D prescription drug plan.** Every year the premiums, deductibles, and cost-sharing provisions of Medicare Part D prescription drug plans change. Retirees should go to medicare.gov and compare expected out-of-pocket costs for necessary drugs under all the plans available in their area. Seniors can switch plans once a year during the open enrollment period.
- 8. Delay signing up for Social Security.** Workers may sign up for Social [Security benefits](#) beginning at age 62. But benefit checks are reduced by 20 to 30 percent for workers who claim their checks before what the [Social Security Administration](#) calls the full retirement age. Soon-to-be retirees born between 1943 and 1954 must wait until age 66 to claim their full entitlement. For those born after 1954, the eligibility age for full benefits gradually increases, finally reaching 67 for Americans born in 1960 or later.
- 9. Exit expensive cities.** (Substitute Message) McKinney is one of the lowest cost and most livable cities in the country. Money Magazine ranked McKinney as the #1 Best Place to Live in America! McKinney has been featured in the top 5 on the list since 2010. Money editors and writers look at data about employment, schools, crime and safety, and also evaluate each city's overall quality of life to determine the rankings.
- 10. Travel smart.** Many working Americans do most of their traveling during weekends and national holidays. Seniors have the luxury of being able to travel on weekdays and off-peak times and taking advantage of last-minute deals.

- 11. Ask for senior discounts.** One of the greatest perks of getting older is qualifying for senior discounts. Some businesses, including Kohl's Department Store and Hyatt Hotels and Resorts, offer well-publicized senior discounts. In other cases, companies provide discounts only to those who ask. Cash-strapped retailers may increasingly be willing to negotiate on price with repeat customers. AARP also negotiates discounts on behalf of its members.
- 12. Find age-related tax breaks.** Some states exempt pension income from state income tax. Other locales offer age-related property tax exemptions or deductions. Contact the state department of revenue or a local tax expert to find out about tax breaks for seniors.
- 13. Ditch your land-line phone.** Paying for both a cellular phone and a house phone is a redundant expense. Pick out the type of phone service that is most useful to you and cancel the other.
- 14. Get rid of cable TV.** Many people are cutting back on the hundreds of TV channels they hardly ever watch. Consider reducing the number of channels you pay for, making do with broadcast TV, or watching free TV programs over the Internet.
- 15. Find free entertainment.** Sometimes seniors actually increase their spending on entertainment in retirement because they have more free time. "They have an extra 2,000 hours a year to fill, and it can potentially cost money and you need to be wary of that," says Jill Hollander, a certified financial planner for Financial Connections Group in Corte Madera, Calif. Come up with a plan to volunteer, garden, or play golf before you retire, and try not to take up expensive new hobbies.
- 16. Resist your grandchildren.** New grandchildren are money magnets. It's often difficult to resist buying them an expensive toy or top-of-the-line stroller. "On an emotional level, you want to give, but on a financial level, you certainly don't want to become dependent on your children and grandchildren at the end of your life," says Hollander. Instead, offer your baby-sitting services. You'll get to know your grandchildren better, and the parents will appreciate some time to themselves.
- 17. Eat out for less.** Seniors are famous for taking advantage of the early bird discounts many restaurants offer to customers who dine before peak dinner hours. "Share meals at a restaurant and go to happy hours," recommends Young. Also, bring your own wine to establishments that don't charge a corkage fee. And consider filling up at home and purchasing only appetizers or dessert.
- 18. Learn to cook.** Busy employees often don't have time to linger over meals, and many lunches and dinners are rushed and thrown together. But home-cooked meals often taste better and are more budget-friendly than convenience

food. Invite a few friends over and make preparing a meal together part of the evening's entertainment.

- 19. Buy used.** Almost all consumer goods, including books, DVDs, and furniture, can be purchased used for a fraction of the retail price. Sometimes you can even afford higher-quality products if they were first lightly used by someone else. Check out online message boards, auction sites, and community bulletin boards before making your next purchase.
- 20. Comparison shop.** There's no excuse in retirement not to comparison shop, haggle, and negotiate for the best prices on everything from your [credit card](#) interest rate to your latest haircut. "You have the time to budget and plan and think about how you spend your money," says Young. Try to buy items you use frequently in bulk, wait for sales, and clip coupons.
- 21. Eliminate debt.** Pay off as many debts as possible before retirement. "Most folks should really plan to have their mortgage paid off at the point of retirement. Then you have eliminated a fixed expense," says Phil Fragasso, president of [investment advisory firm](#) I-Pension in Newton, Mass., and author of *Your Nest Egg Game Plan*. "There is never a good reason to carry credit card balances, but especially so in retirement." Eradicating your mortgage, car payment, and credit [card balance](#) gives you more money to spend in retirement.
- 22. Added: Consider a Reverse Mortgage.** Reverse mortgages can provide a method to access the locked up equity in your home. See details in separate white paper or call us.