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## 3 Stages of Saving and Spending in Retirement

**Most people don't consider the sometimes drastic differences between phases of retirement.**

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Do you behave the same way you did 20 years ago? Are your spending habits the same? What about your saving behavior and income?

If the absurdity of those questions made you laugh, you're like a lot of Americans whose financial habits have evolved over time. The same goes for your retirement years. Although you have probably calculated the value of your [nest egg](#) in terms of annual retirement income, what you will be spending immediately after leaving the working world will likely be very different as you move further into retirement.

The average retiree can expect three phases of retirement: early retirement – a period of travel, hobbies and adventure; middle retirement – a stage marked by socializing, activity and relaxation; and later retirement – a time of winding down, when most of your days are spent at home.

It's logical to assume the [costs of retirement](#) will vary among phases. Spending habits at age 50 are definitely not the same as they were at 25. Likewise, your spending at age 85 will look different than age 65. Therefore, a retirement plan that includes specific “buckets” of money for each phase allows for more flexibility and helps ensure you won't outlive your nest egg.

Let's dig a little deeper into those stages and look at how costs can fluctuate:

**Phase 1: Early retirement.** Your mind and body are sharp and you're beyond excited to embark on new adventures. As a result, you may find this to be the most expensive phase of retirement. However, you'll have to balance these increased costs to ensure you don't blow through your savings in the first 10 years. Careful advance planning means you're more likely to enjoy everything you want in your early retirement years while also [safeguarding your future retirement](#) income.

In this phase, be sure to adjust your budget for increased spending in these areas:

- travel

- hobbies (gardening, a new art class or membership at that golf course you have your eye on)
- grandchildren's education costs
- assisting adult children in need

These higher expenses can be balanced against potentially lower costs in other categories, such as:

- reduced driving (car, gas and other transit expenses)
- less need for a professional wardrobe
- no more automatic contributions to your [retirement accounts](#) (which could be up to 15 percent of your income if you were on target with your savings rate)

**Phase 2: Middle Retirement.** You're spending lots of time with family and friends now, but you're also devoting more and more time to some other people: doctors. Aging is unavoidable, and for many it goes hand-in-hand with declining health. You may still travel and engage in hobbies during this retirement phase, but medical appointments and physical limitations may start cutting into your activities. Relaxation becomes a higher priority. Despite some upticks in health care spending, it's possible this will be the least expensive phase of retirement as you settle into a life of leisure.

In this phase, be sure to adjust your budget for increased spending in these areas:

- medical expenses
- physical accommodations (updates to make your home more accessible, equipment to make life easier)

Keep in mind that you'll likely have reduced spending elsewhere, due to:

- less travel and hobbies
- downsizing your home for a more maintainable space
- no longer financially supporting and assisting family

**Phase 3: Later retirement.** Realistically, the final phase of retirement is also the final phase of life. Some people are able to continue enjoying travel and hobbies, while others are more restricted to the home due to declining health. In some ways, this phase is predictable – less energy, less physical ability, more doctor visits and more rest. In other ways, it can be difficult to foresee what your level of mobility, motivation and health will be in your later retirement years.

In this phase, be sure to adjust your budget for increased spending in these areas:

- medical expenses
- long-term care costs (a long-term care facility or home health aide)

You might have lower expenses as a result of:

- less or no travel
- fewer expensive hobbies

Retirement planning, to many people, means saving and [investing for retirement](#). But even if you've done your homework and calculated your retirement savings goal – and you have an investing plan to help get you there – your planning also needs to cover what you'll encounter in retirement itself. You need a strategy for taking distributions from your nest egg as well as for how you'll continue to invest during each phase of retirement.

There are a lot of formulas for figuring retirement needs, but most don't consider the (sometimes drastic) differences between phases of retirement. Nor do they always take into account individual plans and goals for each phase. Rather than using a one-size-fits-all formula to find your retirement savings number, find out how much money you'll need to be able to do what you want to do.

Account for that dream vacation you've always wanted as well as everyday living expenses. It's better to shoot for a larger savings goal than underestimate what you'll need. It may help to create three different budgets for each phase of retirement to account for the variations in spending. Use your own health and family history as a general guide, but remember, unpredictable health problems can arise – which is why it can be helpful to keep an emergency fund in retirement.

Having a plan is a great start, but having one that fits you and your specific ideas for your retirement is the only way to help ensure your golden years will be everything you want them to be.