Will you spend less, the same or more in retirement?

That's a good question for anyone trying to figure out how much to save for retirement, and certainly a crucial question for anyone entering retirement. Most people assume they'll spend less, but without proper planning, many may be in for a rude surprise.

Traditional rules of thumb, backed by numerous studies, suggest retirees indeed spend less in retirement than what they spent before they retired. A common rule of thumb, for example, assumes retirees spend about 75 percent of their pre-retirement income. The assumption is retirees spend less on clothes, transportation, taxes and savings than they did before.

Not so fast, says a new study from the TIAA-CREF Institute, which examined 2,000 TIAA-CREF participants to see how much pre-retirees expected to spend in retirement and how much retirees actually spend in retirement. Over half (55 percent) of those planning to retire expect their spending to decline in retirement, with lower-income participants anticipating a decline of as much as 20 percent, while only 8 percent expect spending to rise, says the study.

On the other hand, the study found only 30 percent of those actually in retirement experienced a drop in spending, while 20 percent found it went up. Furthermore, retirees whose spending declined found , on average, it declined significantly less than they thought it would decline.

Why the smaller gap than anticipated, or the fact that spending even rose? The authors of the study, titled *Retirement Consumption: Insights from a Survey*, attribute much of it to the fact that during the time of the study the stock market was booming. Retirees, watching their nest eggs grow, felt richer and spent accordingly. Spending probably has declined in the wake of the current down market, the authors believe.

A study in 2001 by Georgia State University and Aon Consulting found retirees spent less than they did before retirement, but household expenses remained about the same. The main savings came because taxes were less and they were no longer saving for retirement. However, the study also noted retirement spending as a portion of pre-retirement spending necessary to maintain standard of living is on the rise. It went from 67 percent of pre-retirement income for a couple earning $60,000 a year in 1997, to 75 percent today.

A study in a 1999 issue of the *Journal of Financial Planning* added a different wrinkle. It examined federal consumption data and found initial retirement spending can be higher than pre-retirement spending, but it declines as retirees grow older and do less traveling and entertaining. The study found retirement spending declines 20 percent between ages 65 and 75, and even rising health care costs are more than offset by other declining costs.

So what do all these studies suggest about planning for retirement? A common theme is that it is best not to plan retirement spending based on rules of thumb or guidelines. The results, after all, are only averages, and spending varies significantly from family to family in retirement. This is especially true for lower-income families, whose spending declines less as a percentage of pre-retirement income than middle- or upper-income families because their tax savings are less dramatic than those in higher tax brackets.

The key is to plan more carefully about what your retirement will look like. Do you plan to travel a lot, entertain or pursue an expensive hobby? Yes, your grocery bills may go down, but what if you dine out more?

The TIAA-CREF study found that the pre-retirees surveyed had a wide range of uncertainty about what they expected they would spend in retirement. The study also found those retirees who had planned the most for retirement before they actually retired were less surprised by their retirement expenses, and half of them found their expenses lower than anticipated.

Planning can go a long way in reducing surprises in retirement.

This column is produced by the Financial Planning Association, dedicated to promote and support the financial planning process to help people achieve their goals and dreams. It is provided by
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