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Retirement Budgeting Tips

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Creating a solid retirement income plan starts with budgeting. Follow these steps to set yourself up for a secure and fulfilling retirement.

By Beau Kemp

Creating a retirement income plan starts with preparing a realistic budget. Many people underestimate their spending or don't know where to start. In situations like this, I have found it easiest to use a top-down approach.

Start by examining your current paycheck and total net cash flow in your checking/savings. This will give you a good idea of roughly how much you are spending and saving every month.

For example, let's assume you receive 2 paychecks per month for $5k (net amount). From there, you determine you save about $2,000 a month, giving us a good starting place that your spending is about $8k monthly.

Essential vs. Discretionary Spending

Next, determine how much of your spending is for essential living expenses versus discretionary items like vacations. We'll continue the example and assume $7,000 is used for essentials, while $1,000 goes toward discretionary expenses. This adds up to $84,000 annually for basic living needs and $12,000 for discretionary spending. Categorizing expenses this way provides clarity and flexibility, enabling you to adjust discretionary spending during financial downturns.

Items People Forget About

- **Health Care Costs**

Pre-65: You'll likely need to find private health insurance

Post-65 – Medicare Years: You’ll have premiums for Medicare Part B and D, as well as a supplemental plan (or an Advantage plan).

Out-of-Pocket Costs: Everyone’s health issues are different. However, if you’re healthy and don’t currently spend much in this category, you can build in about $3k-$5k annually.

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- **Inflation**

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- **Go-Go Years**

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- **Lumpy expenses**

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Final Thoughts

Transitioning from saving to spending can be a psychological hurdle for many retirees. Even those with significant assets often struggle to draw down their savings. A clear, well-thought-out plan can help ease this transition, providing peace of mind and confidence to enjoy your retirement.

By starting with a solid budget and staying flexible, you can prepare for a financially secure and fulfilling retirement. Remember to plan for both expected and unexpected expenses, allowing you to enjoy your retirement while maintaining long-term financial stability.

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Beau Kemp, CFP®, RMA®, is a financial planner with Sensible Money. He has a Bachelor of Science in Business Administration in Finance and a Certificate in Business Economics from Northern Arizona University. He started as an intern with Sensible Money during his senior year in 2017, and joined full-time upon graduation. He has since acquired his Certified Financial Planner® designation while learning all the ins and outs of taxes, stock options, portfolio design and how to put it all together within the context of a comprehensive retirement income plan.