Here are five ways to increase spending in retirement. Throughout their lifetimes, many retirees experience 'portfolio withdrawal anxiety.' It makes sense. After an eternity of being an accumulator or saving for retirement, psychologically, it's a massive hurdle to begin and continue a withdrawal strategy, especially from portfolios comprised of variable investments like stocks. For those experiencing the anxiety of withdrawals and the ambiguity of retirement spending calculators, **r**ead on.

But first:

It's normal to experience spending hesitation.

Keep in mind, you're not alone if increasing spending in retirement scares you a bit, far from it. It's rational and normal to feel this way. Why? The spending in retirement math is fraught with unknowns.

I call it the Uncertainty MEETS Uncertainty equation.

Investors are told by financial media and their brokers how they're able to withdraw a **FIXED** 4% annually from a **VARIABLE** portfolio comprised of stocks, bonds, and cash. It's like somebody telling you - sure, oil and water **DO MIX (occasionally, that is).**

JUST BELIEVE US!

Meanwhile, academics were explaining how 2.4% was the new 4% withdrawal rate during the pandemic. What gives? I'll tell you what gives. It's all a big guessing game with you and your wealth holding the short end of the stick. Surprise!

Let me be clear, repeat after me:

YOU *CANNOT WITHDRAW AN INDEFINITE, SAME FIXED PERCENTAGE* from your portfolio throughout retirement. Therefore, I cannot tell advise with complete confidence that a *VARIABLE PORTFOLIO CAN PROVIDE THE SAME FIXED WITHDRAWAL RATE* over a lifetime. If I did, I'd be lying. Or, at the least, I'd be depending blindly on a stale academic study older than most of our adult children.

So, give yourself a break. The uncertainties of future common stock returns over the long term (from this point where the Shiller P/E stands at close to 40x, I wouldn't expect greater than 3% for market performance over the next decade or so), along with not owning the Magic 8 Ball of life expectancy, warrants increased awareness of spending in retirement. It doesn't mean you shouldn't spend; it means you tend to be conservative in the face of variability. It's a completely rational response.

A recent analysis.

In a June 2021 NBER study, David Blanchett and Michael Finke tackle spending behavior (or lack thereof) in their academic paper **Guaranteed Income: A License to Spend**. More on the topic of guaranteed income and their analysis later. The authors also source multiple studies on spending trepidation.

The 2020 EBRI Retirement Confidence survey.

For example, the 2020 EBRI Retirement Confidence Survey found that 1 in 20 retirees don't have a strategy to spend down their assets, and 2 out of 3 are looking to preserve assets for future generations. Survey participants were found to be living exclusively off the income their portfolios produce, which must be an extremely austere existence in this low-interest-rate environment.

One could say this is an extreme response to longevity risk. But, candidly, I understand how investors may be hesitant to tap deeper into their nest egg in a turbulent macro-economic environment where the only thing that seems to be working IS the stock market. Only because it's a matter of time before the market pays attention and the Federal Reserve snaps it into reality by cutting off the QE drug.

You may be asking - How much can I spend in retirement?

This isn't an easy question to answer. There's no hard, fast rule of thumb. That's why comprehensive financial planning is so important to create spending confidence and awareness. I'll share with you what retirement nirvana is, however.

Mentor and retired Professor Emeritus of finance at Boston University Zvi Bodie told me retirement paradise was when a household's retirement spending on mandatory expenses was covered *100% by guaranteed income options*. Not stocks. Guarantees. An income a household could never outlive comes assuredly from products that provide income for life. In the old days, for the most part, these vehicles were called pensions.

So, here are 5 ways to increase spending in retirement.

ONE: Turn the unknowables to as knowable as you can get.

It is possible to envision, crystallize and plan a lifetime retirement spending strategy. Several factors are in your control. Obviously, we don't know how long we'll live, but thankfully based on a realistic assessment of lifestyle habits and an understanding of our families' health histories, a life expectancy calculator such as www.livingto100.com can provide some clarity. If you go through the exercise, you'll notice most of the questions are based on health-related habits.

Then, document the fixed expenses or necessities?mortgage, rent, all that's required to keep a roof over your head. By the way, I have witnessed many people get really creative with lowering fixed expenses in preparation for retirement.

For example, a new retiree I assist slashed his fixed expenses by 30% by relocating to a manufactured home community in the Florida Keys. Communal breakfasts, neighborhood gardens, shared dinner gatherings, robust social activities. He purchased a modest home for $90,000. I know there's an overall negative image of trailer parks; however, you sometimes need to think outside the box and keep an open mind.

This savvy retiree doesn't regret the decision. On the contrary, I think the community and his home are simplistically beautiful because actions that guard against financial vulnerability make me feel all warm inside. Like cinnamon-roll-just-out-of-the-oven-warm! Living modestly is proving to be healthy for this investor's overall fiscal and mental health.

Don't squash your second childhood.

Next, envision the variable expenses and the fun stuff to spend money on in retirement. Of course, these expenses are the ones retirees are always told they should easily cut. But if retirement is indeed a second childhood, wouldn't one look to bolster these expenditures or not stress so much over them?

Now, that may not mean trips to the French Riviera every year, but it could mean an additional road trip or an occasional excursion to Disney with the grandkids. In addition, I worked with a pre-retirement couple that maintained a generous health-wellness expense category which included spending on massages, vitamins, gym memberships, and annual mental health retreats!

A comprehensive financial plan that outlines specific goals and the probabilities of meeting them makes the unknowable knowable. Not completely, but enough to foster spending confidence. Investors who complete plans feel comfortable increasing spending in retirement because they possess a working knowledge of their tangible needs, wants, wishes, and overall income needed to cover or adjust them accordingly.

Keep in mind that a realistic plan matches the correct inflation rate to each goal and adjusts future investment returns based on current market valuations.

To sum it up, planning generates awareness. It's a complete household financial health diagnostic. Awareness bolsters confidence, especially if a retiree micro-budgets for a year or two before the official launch. A micro-budgeting exercise where every household expense is accounted for allows retirees to dig deep into where their money goes and where changes need to be made. Zero-based budgeting allows for every dollar to be accounted for. Every dollar has a job. Miscellaneous is not a spending category.

Budgeting templates.

I prefer old-fashioned pencil and paper budget templates like Dome's Simplified Home Budget Book. However, for those who prefer an online worksheet, look at the Weekly Budget Worksheet Budget Template from Google.

Keep in mind that your spending categories will change when retired, so be receptive to reducing them. Broad spending categories such as clothing and commuting will most likely be reduced. In addition, remember that saving for retirement is no longer an expense you need to worry about in retirement. For some, that was a significant expense category that will no longer exist. Retirees still need to manage their money wisely, especially the risk of investment loss. However, saving for retirement is an expense to wave to through life's rearview.

TWO: Rethink the link between spending and happiness for maximum return on dollars.

Happiness is an ethereal concept, although economists and behavioral psychologists have spent entire careers attempting to define what it means to be happy. As a result, there are hundreds of studies about the topic. That's fine, I guess. They are interesting to read.

To define retirement happiness on your terms, it'll require a strong sense of self and an objective deep dive into how you define satisfaction. The idea is to untether money from the definition. The exercise will result in a stronger reconnect of dollars to expenditures. In other words, the unit of happiness per dollar spent can be enhanced, which means I won't need as much money as I think to feel secure and fulfilled.

I love books. This is not a surprise for most RIA readers. The smell of pages, the inspiration of words. Since I was a boy, I loved musty used book stores in New York's Greenwich Village, where the walls were so full of paperbacks I thought they sprouted from the cracked plaster.

Today, I still roam aged book and antique outlets to spend pennies on the dollar compared to new. I also have a library card (they still exist). In other words, I can achieve happiness from books at a much lower cost per dollar and revel in the excitement of experiencing unique book store locales. Some retirees use this thinking to boost happiness and reduce spending too.

A popular study on happiness.

One of the landmark studies on money and happiness from famed psychologist Daniel Kahnemann and co-author Angus Deaton links the subjective state of well-being with annual income levels. Per their research, a household income of roughly $75,000 "buys" happiness. Again, this is a captivating analysis. However, I can show you retirees with incomes significantly less than $75,000 who live enriching lives. So, again, happiness is subjective and is certainly an inside job.

Interestingly, spending on experiences, not material goods, was found to be more conducive to happiness. I find retirees especially tenured ones, love to spend on experiences. The simpler, the better. Modest lunches with friends, ice cream dates with grandkids, and even magazine subscriptions. For instance, a senior retiree I know subscribes to adult activity books to keep her mind sharp.

Redefining happiness may help retirees increase spending on categories that provide the maximum inner reward per dollar. Kahnemann's study also found that spending on small indulges rather than big splurges fosters happiness.

I witness a similar conclusion with many of the retirees we serve.

THREE: Guaranteed income and increased spending in retirement.

A recent study outlines how consumers are fine with the words guaranteed income but not the word annuity, but for the most part, they are the same. Unfortunately, it seems that the creative word salad mollifies the populace.

Either way, a guaranteed lifetime income option, whether through the maximization of Social Security benefits, a product offered through an insurance carrier, or both, will be an important part of a retiree's income strategy.

At RIA, we are preparing for a decade-long cycle of below-average returns for equities. Valuations inevitably will be a factor when the demand for stocks wanes. Keep in mind, lofty valuations don't mean stocks need to crash. They can sit sluggishly for years working off the weight of the math. Think of it like sitting around in a daze after a third helping of pumpkin pie at Thanksgiving.

Ostensibly, for investors saving for retirement, low future returns are frustrating. However, during these periods, an investor's strong fiscal habits, like saving more, reducing debt, and taking on personal improvements that increase wages, can make up for deficiencies in portfolio performance.

Distribution portfolios must be treated differently.

For retirees, investment return tailwinds are a unique, ongoing challenge. Anemic returns without a plan to monitor or adjust annual portfolio distribution can drain a nest egg quicker than anticipated. This is where guaranteed income products can shine, and I believe it's a perfect time to consider them.

For example, a long-term headwind for market returns can exhaust it prematurely when a variable asset portfolio shoulders most of the retirement income burden. Think about what it must be like to run with a hundred-pound weight on your back. How far are you going to get?

Now, what if you could cut that weight by at least 50%? That's what guaranteed income vehicles do. They lift weights. They shoulder some of the burdens of lower portfolio returns. That's why the most successful retirees, even those with more than sufficient investment assets to afford a comfortable retirement, have greater breathing room to spend when they incorporate guaranteed income strategies.

A new study reveals guaranteed income sources help retirees overcome a psychological barrier to spend.

Per a June 28, 2021 paper for NBER by David Blanchett and Michael Finke entitled *Guaranteed Income: A License to Spend*, retirees who are behaviorally resistant to spending down savings may better achieve their lifestyle goals by increasing the share of their wealth allocated to annuitized income.

In other words, a guaranteed income gives retirees psychological breathing room to spend! The delay of claiming Social Security until age 70, an employer pension, an income annuity from a private insurer are examples of guaranteed income.

Annuities add clarity to the spending decision. Intuitively, it makes sense. After all, if I don't need to worry about income running out, bear markets, and fluctuating portfolio withdrawal rates, I feel more comfortable increasing my spending psychologically.

From the study:

Annuities can both reduce the risk of an unknown lifespan as well as allow retirees to spend their savings without the discomfort generated by seeing one?s nest egg get smaller.

Annuities must be planned, not sold.

Generally, annuities get a bad rap because they're sold to consumers who rarely understand them. Imagine purchasing an airplane and never being taught how to operate the cockpit. Instead, you sit and stare at the dials and switches, regretting the decision and wondering why you own this plane in the first place.

Not everyone needs an annuity. Most people have Social Security. That's their annuity. However, a comprehensive plan can flush out a need for additional guaranteed income vehicles. Frankly, I don't understand how annuities are sold like used cars. I mean, how can I even offer you an income annuity if I don't know your needs, wants, wishes, household cash flow, income sources, and health status?

Regardless, the study makes sense. A guaranteed income vehicle makes the *unknowable knowable*. I don't know how long I'm going to live. I don't know if a bear market is going to wipe me out. Thus, the comfort of knowing about that check coming in no matter what is a great relief. Thus, I feel free to spend knowing I can never run out of money!

FOUR: Work longer to increase spending in retirement.

Ok, nobody wants to hear it, but working longer can add life to your portfolio, and possibly you too! Working longer for older cohorts has been on a dramatic rise since 2000. In addition, the pandemic has forced older Americans to consider retirement. However, the reality is that most retirees will need to work at least part-time to supplement retirement cash flow and postpone filing for Social Security to receive maximum benefits.

Today, one in three people aged 65-69 is working, and one in five age 70-74 is working, most of them are women.

Hey, it's not all bad.

Bet you didn't know that something as easy as working three to six months longer boosts retirement income by as much as increasing retirement contribution percentages by one percentage point over 30 years of employment. Yes, you read that correctly. The analysis is from another NBER Working Paper titled [Working Longer Can Sharply Raise Retirement Income]. The authors discover that primary earners of ages 62-69 can substantially increase their retirement living standards by working longer.

Conclusion: there are several obvious reasons why working longer helps increase income, which can bolster spending in retirement. Older workers still contribute to savings, postpone withdrawals, can purchase income annuities, and, cheaper and most importantly, wait to take Social Security.

As the analysis outlines:

The largest factor is the increase in Social Security benefits from claiming later. For example, if an average 66-year-old works one year longer and claims Social Security one year later, that person sees a 7.75 percent rise in retirement income, the researchers calculate. Some 83 percent of the gain comes from the rise in Social Security benefits. The federal program offers a higher benefit to a given individual if that person claims benefits at age 67 rather than at age 66.

Working longer is good for your health. No, really it is. And for spending too!

There exists a strong positive correlation between employment, longevity, and social engagement. For example, a Pension Research Council Working Paper by Tim Driver and Amanda Henson from The Wharton School links working longer to health and longevity.

After retirement, there's a great chance of cognitive decline in older adults. Work staves off the adverse effects of social isolation. Interestingly, most older workers polled for a survey referenced in the paper would rather work a job completely different from what they've done in the past. For example, a new retiree I partner with recently applied for a job at Cabela's because of his expertise with firearms.

Vibrancy in retirement comes from feeling important to ourselves and the community. Of course, a part-time job provides many internal rewards outside of the money but, the extra cash to increase spending in retirement doesn't hurt!

FIVE: Think outside (or inside) the box when looking to increase retirement spending.

The majority of the wealth of middle-class households sits on a foundation. According to Visual Capitalist, a principal residence for over 61% of households with a net worth of $0 and $471K represents the cornerstone of wealth. So, why not consider the equity in a house an untapped source of retirement cash flow? Why not use your home to help increase spending in retirement?

Reverse mortgages or home equity conversion mortgages have a bad reputation even though they have changed dramatically over the years. No longer predatory, HECMS can be a powerful income tool in a fiscally responsible retiree's arsenal.

Facts about reverse mortgages.

Reverse mortgages have several layers of costs (nothing like they were in the past), and it pays for consumers to shop around for the best deals. Understand to qualify for a reverse mortgage, the homeowner must be 62, the home must be a primary residence, and the debt limited to mortgage debt.

One of the smartest strategies is to establish a reverse mortgage line of credit at age 62, leave it untapped, and allow it to grow along with the home's value. The line may be tapped for long-term care expenses or to generate a monthly distribution for increased spending in retirement. Also, consumers can use the reverse mortgage line for income in years where portfolios are down, thus buying time for the portfolio to recover. Once assets do recover, rebalancing proceeds or gains may be used to pay back the reverse mortgage loan, consequently restoring the line of credit.

Here's an example of how a reverse mortgage can work. Keep in mind, if you plan to remain in your residence through retirement or age in place, a reverse mortgage doesn't require repayment.

Using rough numbers and the calculator at reversemortgage.org, I came up with the following to help increase spending in retirement:

House value in zip code 77008: $700,000.

Existing mortgage: $200,000.

If I were age 66 (I used a Social Security Full Retirement Age), I would be able to collect $301 a month generally for as long as I'm in the home.

Keep in mind the fees came in at roughly $26,000. I wouldn't come out of pocket for those, by the way.

Finally, consumers can use a reverse mortgage to pay off their existing mortgages, thus increasing retirement cash flow by eliminating payments.

To learn more about reverse mortgages, click here.

A note about retirement spending calculators

There are more retirement spending calculators on the internet than photos of Kim Kardashian in a bikini. Ok, I have no idea but, I believe it's a reasonable assumption. I would say, for the most part, be skeptical of these quick and dirty tools. Why? Just like that cellophane-wrapped sandwich sitting in a warm fridge at the local gas station, you don't really know what's in them. What rates of returns do they use for investments? How do they calculate inflation?

Retirement spending calculators from reputable financial firms such as Vanguard and Fidelity may be used as a starting point but keep in mind, they'll use HISTORICAL asset class return numbers, and the classic "past performance is not indicative of future results" applies more than ever based on current lofty market valuations.

Ways to increase spending in retirement: a final word

The best path to understanding how much you need to save for and spend in retirement is completing a comprehensive financial plan with a trusted fiduciary like RIA, who estimates future asset class returns and monitors trends in healthcare costs and inflation overall.

Overall, increasing spending in retirement is achievable, but it requires multiple steps and ongoing monitoring of budgets and withdrawal rates. As a child, you received an allowance. In retirement, you also pay yourself an allowance. You're the parent, the mindful steward, AND the child now.

Use the money to capture memories, do what you love, and stay healthy enough to enjoy every dollar spent.