



Ep: 119 How to Calculate your Retirement Spending

Keith: Lawrence, welcome to the show.

Lawrence: Thanks. I'm glad to be back on the show. It's been a couple months since I've last been on. I think today is a really wonderful topic, an evergreen topic, and I can't wait for our audience to hear more.

Keith: Absolutely. And for our listeners, Lawrence is an associate portfolio manager with our firm, involved with planning, involved with investments, and is a wonderful, wonderful advisor. So great to have you on the show, Lawrence. We're going to specifically talk about retirement spending today and we're going to share with our audience the calculations around retirement spend, how much individuals spend, and specifically, we're going to share these different patterns and these different phases that individuals go through throughout their retirement and the dollars associated with each of these phases. So, the three distinct phases, as we'll talk about later in the show, are the Go-Go years, the Slow-Go years, and the No-Go years. So, some of our clients have heard us talk about these different years, these different phases. You know, I think the most important takeaway is that even though the last one's called no go, it's mostly from a financial perspective because there's amazing things that still happen in that period of retirement.

Lawrence: Absolutely.

Keith: So, Lawrence, let's dive into a little bit of the why here. Why are we dedicating a show just to retirement spending?

Lawrence: Well, this is a really important one. So, for a lot of people, they don't really understand how much they may spend or how much they want to spend later in their retirement. Obviously, there's no perfect solution. There's no rule here. It's very personal, it's very unique. But the reason why we're doing this is because people are at risk of not having enough money for their retirement because they spend too much or the spending doesn't jive with the assets and the income they may have. And that's due to poor assumptions.

Keith: Well, poor assumptions. And they just miscalculate. Yeah, they, they aren't aware of all the different patterns that tend to happen sometimes during retirement. So, one of the frameworks we have. And this, this fits into a larger framework. So, figuring out how much you spend is part one of retirement planning. The other parts, which we aren't discussing today, are geared around reviewing your income sources, using reasonable assumptions in your projections, stress testing your assumptions and projections, and then sort of circling back every year or two. So that's kind of the general framework. Today's episode is all about step one, which is calculating your spend rate.

Lawrence: Yeah, exactly.



Keith: Okay, great. So, let's go into it. So, spend rate. Understanding your spend rate gives people peace of mind. We'll talk about that. Because specifically, as soon as you start to have clarity around how much you need during your retirement, and if you see that your plan can make it work, it provides tremendous peace of mind.

Lawrence: Yes. And we see that with clients. There was a study by Fidelity where they did a sample for the last 10 years over how people feel about their prospects in retirement, your outlook, and for existing retirees, people who are already retired over the last decade, it's stayed relatively consistent. People are still positive about their outlook. However, pre retirees, people who are not yet retired, we're seeing a significant dip in people who are positive about their future outlooks. And that, if I had to venture, is a lack of clarity, a lack of comfort with their plan, with their financial position, and having peace of mind.

Keith: Really delving into understanding how much you're going to spend is critical towards getting everything ready for your projection, which is then critical to helping you become much more confident with what your outlook is.

Lawrence: Yeah, that and starting early. The earlier you start, the more peace of mind and comfort you'll have, and the better you'll be at gauging what your spending is.

Keith: Fair enough. Fair enough. Okay, so let's jump right into spending in the three phases. Let's start with the Go-Go years. That's. And the Go-Go years are typically that first 10 to 15 years of an individual or couple's retirement between, let's say 60 and 75 individuals are healthy, they're active, and they're ready to enjoy the freedom that they've worked so hard for.

Lawrence: Yes.

Keith: So, Lawrence, let's go into what that spending looks like and what your recommendations are.

Lawrence: Absolutely. So, from what we see, spending tends to be the highest at this phase. It's early in your retirement. You're young, you're active, you want to travel more, you want to do more things, you go out more, and so on. So, we definitely see a bump up in certain types of spending. One, being travel, two, being home upgrades, and three, Some gifting if it's possible. So, let's spend some time on this because travel is a popular one and it tends to be, in our experience, underestimated.

Keith: I fully agree. And I remember, you know, encouraging all the clients, especially in the early years. We're working with a lot of pre retirees that once you hit the Go-Go years, especially those that have saved hard, it's time to really enjoy yourself. So, travel tends to be one of them. I think more and more people, pre retirees are also getting a lot of traveling in, but when you retire, you have more time now.

Lawrence: Yeah.



Keith: And so, it's a huge area that people must address and make the correct assumptions. Traveling is also more expensive now than it used to be. So, we would encourage individuals, when you make that calculation to really properly review the travel that you want to do.

Lawrence: Exactly. We also see a big jump, especially in the early years of retirement. You're spending more time at home. For example, home upgrades, which is a big topic, is people tend to invest more in their home. Not everybody, but we definitely see a trend here, people investing in their kitchens or their landscaping and redoing their backyard to have a bigger deck and so on. And these things can be quite pricey as well.

Keith: Well, and there's two components, right. I mean, I think there's the upgrades and then there's the maintenance.

Lawrence: Yeah.

Keith: So, let's just take one step back and look at maintenance first and then we're going to jump into upgrades. A lot of times when we ask an individual, how much do you spend on a monthly basis, they might give us a number and that will include all of the sort of the traditional basic expenses, plus maybe some discretionary, like restaurants. What it typically doesn't include, and we encourage people to think about that, is maintenance. And so, there's maintenance and there's upgrades. What do we talk about? Maintenance? What are the numbers that we recommend individuals think about?

Lawrence: Yeah. So obviously this is case by case. Generally, the industry uses a 1% rule. So approximately budgeting 1% of the value of the home every year is a reasonable assumption. Now what you may see is three years go by, and you don't need to invest in your home. And then it's a crack in your foundation or it's the roof and it's lumpy. But a long-term average of 1% of the value of the home, it's reasonable and it doesn't go away as well.

Keith: Yeah. So that means if you've got a, let's just use a number \$1 million property, you should allocate in your expenses \$10,000 a year.

Lawrence: Yeah.

Keith: And you should sort of frame it that way. \$10,000 a year to maintain that property. Now, let's talk. Let's get into. You mentioned very importantly, upgrades. Why do people want to do upgrades?

Lawrence: Well, I mean, you're spending more time at home. You're not working anymore, you're hosting more. It could be anything. But we see this, this attitude of, let's make our home as comfortable as possible. You enjoy it more, which. There's some value in that. If you get enjoyment from, you know, having a beautiful backyard or a modernized kitchen, that's great. The important thing is, A, you have



the budget for these things, and B, these are not investments. You shouldn't expect to make money from these things. This. This should be purely because you want to do something like that.

Keith: Yeah. When you talk about investments, I mean, I think we're jumping into things like how much money do you get back from, you know, a dollar spent in these different categories? And so, because we're financial people, we would look up and we've seen sort of REMAX reports that say, you spend a dollar in this, you'll get \$0.70 back or \$0.80 back, which is still, some people say, well, that's a great investment. And we, because we're investment people, say, well, actually, your money hasn't grown. You're just getting a portion of it back. So, your point is very valid. Make sure if you're doing these upgrades, it's because you want them, you can enjoy them, and you can afford them to do them.

Lawrence: Exactly.

Keith: I think what's happened also with the pandemic is individuals love their homes more than ever before.

Lawrence: Yeah.

Keith: We used to hear five or six years ago statements from clients saying, I really don't think I'll ever move ever. I'll stay here forever. And that's a great concept to have. But the reality of it is at some point, maybe there is extra care that's required or maintaining the home is a lot. Now suddenly, we've had a lot of floods, Lawrence. A lot of our clients are now saying they want to downsize because they're tired of having a house that gets flooded. So how quickly things turn around homeownership. But I think the pandemic did encourage individuals to kind of think, I need to beef things up a bit. I want to enjoy my property, and there's nothing wrong with it as long as you can afford it.

Lawrence: Exactly. The third other big type of spending that we see in the Go-Go years is the potential of gifting, which is a hot topic of people in their, let's call it, early 60s now today, feeling they need to help their adult children out with something like weddings or a home purchase.

Keith: Yeah. And we spoke about this too. This is an excellent point you raise. Because if I were to go back 25 years ago and I'm dealing with pre retirees, or even 10 years ago dealing with pre retirees, they wouldn't say, oh, but I need to allocate money to these support mechanisms for my adult kids. It doesn't mean everybody does it because not everybody does it. We've got the stats now, but more people want to include it in their spend.

Lawrence: Yeah.



Keith: And I think that that's. If you want to include it, you actually have to have the money to do it and document it and plan for it.

Lawrence: Yeah, no, exactly. So, we, we see that more with clients. That becomes one of their main objectives now or one of their many objectives. I feel like I need to help my kids out, so they be able to afford a home in a large Canadian city which are quiet, quite pricey. So, we're seeing that trend now more prevalent where people articulate these goals. They need to now plan for them, and they need to be able to do so. Which 10 years ago you were saying that wasn't necessarily the case, which does change the landscape.

Keith: Yeah. It's another expense that people need to be aware of.

Lawrence: Correct.

Keith: That's covering a framework of what are the main things you need to think about in the Go-Go. Years later in today's show, we'll discuss exactly how you do it. But Lawrence, what would be the number one error that you've seen individuals do in these calculations as they think about how much they feel they want to spend?

Lawrence: Well, it's a great question. I don't think it'll be a surprise that people tend to underestimate their spending. It's very, I would say easy to spend money when the cash is coming in, you're getting your paycheck, it's money in, money out. But once you actually retire and now, you're living off your pensions, if you have it, or your government pensions, and taking from the portfolio, taking down from your investment accounts, you start to feel that spending a little more becomes a little more real.

Lawrence: And we see it tends to be a little bit of an adjustment. You know, I wouldn't say surprise because we do plan ahead of time with our clients. But once the spending becomes real, it helps people hone in on where their money's actually going and take the steps to adjust if needed.

Keith: Well said. And we work with a lot of individuals that come to us as pre retirees.

Lawrence: Yes.

Keith: So, they come to us just, you know, five, ten years away and we start working with them, we start trying to talk to them about how much they'll need and asking them questions and asking them to put their wish list together. But you're right, one thing to have a wish list, it's another thing to actually start drawing down capital and matching your expenses. And there are sometimes individuals underestimating how much they spend.

Lawrence: Yeah. And a part of that is there is more, I say aspirational spending than there was, you



know, 20, 30 years ago. When people retire, they want to have the bucket list trips, they want to help their grandkids out. There's all these things that they want to do. But you must be able to make sure that it fits with your plan. And these things are planned for ahead of time, if possible, right?

Keith: Yeah, absolutely. Two shows ago with Marcelo, we talked about how retirement spending has surpassed inflation levels relative to what retirement spending was 20 years ago. So that essentially supports exactly what you just said, which is people want more out of their retirement.

Lawrence: Exactly. And things have gone a lot, a lot more expensive.

Keith: Okay, so that covers off Go-Go years later, we'll talk about exactly how to calculate that. Let's go Slow-Go years.

Lawrence: So that typically the focus shifts towards, you know, individuals being comfortable, bit more routine, they're still active, but they're just not quite the same pace. Somebody between 75 and 80, you know, mid-80s. A lot obviously depends on health.

Keith: Yes, I think that's the number one driver. But what are your thoughts around that? The Slow-Go years?

Lawrence: Yeah, it's the middle of the curve where your spending tends to come down. You're not taking these big, big trips. You're probably going out a little less, you're spending time with family more, it's more local travel, it's more on comfort and routine. It's important to note that there's a pretty wide range of outcomes here. Obviously is if health becomes an issue, things could spike up in terms of spending or continue to decrease as you have less energy to do these big things. It's important to note that for a 60-year-old, the life expectancy for a male is about early 80s and mid-80s for a female. Health span, a separate measure on healthy living is lower. It's in the late 70s for, you know, it's 77 for a man and 79 for a woman. So having a reasonable health span allows you to do things you want to do.

Keith: Yeah, no, absolutely. The longer the health span, the more active you can be. And the more active you can be, the more you can do which then has costs associated with that. So that's covering off sort of the Slow-Go you're describing. Spending comes down and now we're going to go to what we call the No-Go. And again, the caveat around the No-Go is it's not intended to be a negative concept. It's just financially there's just, there's potentially less spending. But you're going to, you know, share that it could be the opposite. Let's talk a little bit about that. That tends to be for individuals who are early 80s, mid-80s to 90s, maybe 95, maybe more.

Lawrence: Maybe more, who knows?

Keith: Yeah.

Lawrence: There are pretty much two routes that people experience in the No-Go years. It's either your trend of spending tends to go down, continuation of that, you're just less active, you're, you're aging, you again, discomfort, or there's a significant spike as you need more assistance and there's more healthcare costs. So, there's two pretty wide, there's wide ranges on what the feeling of being in the No-Go years can look like.

Keith: Well said. And this is the part that's virtually impossible to predict.

Lawrence:

Keith:

And this is the part that I think our clients and individuals I've worked with have the most difficulty. And our message to them is, well, let's just make sure that no matter what you are financially okay if any of these outcomes pop up. So, you're okay if you spend less, obviously with your continuing the Slow-Go years. But if you need more for assisted living, let's make sure that the funds are there.

Lawrence: Yeah.

Keith: And it doesn't mean that you have to have necessarily, you know, a lot of Canadians may not have the money saved in a portfolio. This is where we tend to say at least your home is there, if it's mortgage free. Later in life, typically, you see individuals selling their homes and going into the more expensive assisted care or nursing homes. And if they needed that, the home equity is there to potentially cover and act as the buffer.

Lawrence: Exactly. And for a lot of Canadians, that is their reality is the home. The primary residence is your largest asset, and you'll need to capitalize on that either by borrowing against your home or selling it and downsizing. Exactly. So, we generally see two or three different routes in the No-Go years on your living. So, either you're still at home and you have help and that's great, or you must move and go to another type of facility. So, the first is an assisted living or residence that's more of a retirement community. You're still independent, but you have more help on meals and housekeeping and so on. The average cost we see with in Quebec and Ontario, and it's likely the same across Canada, four to six thousand dollars a month. You know, that's a reasonable number to start budgeting. Obviously, that's very variable on if you have a caregiver, how many meals and housekeeping, what services you opt in for. But that's a reasonable benchmark.

Keith: And that does not include any medical support. There's no medical support for individuals that have perhaps cognitive decline of any sort.

Lawrence: Correct.

Keith: Okay.

Lawrence: The second, you know, I say living experience is a nursing home. So, if you have more cognitive decline, you cannot live independently at this point. There's a nursing home. This is one where it's 24-7 care. You have nurses on staff, you need more help, and that could be even more pricey. So, there are government institutions, they're public. Many Canadians end up there. But there are also private nursing homes which can be very pricey. These, in our experience, could be easily \$10,000 a month and go up even to 12 or \$15,000 a month. But that is everything. That's rent, that's health care, that's food, that's nursing, and so on.

Keith: Okay, fair enough. Well, thank you for those very, very clear explanations in terms of some of the expenses of assisted living. Okay, Lawrence, so we've gone through the three phases. We've gone over Go-Go, Slow-Go and No-Go as a framework, a general framework. Now let's get really specific and talk about how you actually calculate all the expenses in these periods. So, the easiest period to calculate is the Go-Go, because it's coming up. Let's assume we're dealing with an individual who's 55 or 60. What would you tell them? How do we start making those calculations?

Lawrence: I would say do a detailed budget, go line by line on exactly where you spend your money today, and then do a parallel budget of what you expect to be paying in the future.

Keith: Perfect. And what I would say is make sure when you do that parallel budget, just use today's dollars. Because a lot of individuals would say, well, you know, I don't know what I'm spending in 10 years from now because of inflation, everything like that's not. Calculations can correct that assumption. What we really need is an individual saying, I spent this today. What will I spend if I was to be retired right now? What are my costs right now? So, we've got a checklist to go through of all the different expenses, but there's two main things that, that I'd like to hear from you now.

Lawrence: We always articulate that you need to understand what expenses may go away when you retired and what may reappear.

Keith: Those are the big adjustments right there. What goes away and what comes in.

Lawrence: Exactly. So, we see common expenses that go away when you're retired is obviously the mortgage expense. Hopefully you paid off your mortgage at this point. Any work expenses, you know, clothing and travel, things like that, transportation, and the big one is the kids are out of the house, presumably. So, there's a lot less expenses there for tuition and the kids. So, you need to understand what you pay now may not be exactly dollar for dollar what you pay in the future. And stripping out the expenses that will no longer be there in retirement.

Keith: Yeah, well said. And you might even have, in addition to the things you mentioned, you know, you no longer need term insurance, or your term insurance expires, you're not paying the premium. But your point is go down the entire list and figure out what you don't have to spend money on.



Lawrence: Exactly.

Keith: Okay, so now switch gears and you're going to say in that same list, what are the new expenses that will appear? What are your new retirement expenses that will appear in your Go-Go years? And so how do you, how do you frame that?

Lawrence: Yeah, and that's coming back to the aspirational spending concept, is you want to try to understand what you want to spend your money on when you have more time. So, for some people, it could be more restaurants, it could be more shows, more travel, more home projects, cottage, you know, all these concepts. So, we've talked about this before in this episode. You have to think about where you want to spend your money.

Keith: Yeah. So, there's really three kinds of components of making this calculation. Most individuals should be able to say, if your kids are gone and you're empty nesting, what are my food, how much money am I going to spend on groceries? Well, you know how much money, it's going to be about this. You know how much your utilities are, you know it's going to be about this, you know how much your insurance for your home is. There's a whole bunch of categories that you already know how much that is. So that stays. Now you're going to make your two adjustments. What goes and what comes in. Okay. And that is the framework we use all the time with our current clients.

Lawrence: Exactly.

Keith: And I think that's the framework that everybody should be using. And you do that throughout all your years. So, you calculate what are your Go-Go years going to look like. What are your spending buckets? You know, rent a car versus lease a car. Lease a car will show up in your monthly spend. Buy a car. People tend to forget that every five to seven years you need to have, maybe if you trade your car in and you buy a new one, you're missing a part of equity. You need capital to do.

Lawrence: It has to come from somewhere.

Keith: Right. That come from somewhere. So, make sure that's built in. That's a great way. What can you say about how clients have responded to that method?

Lawrence: Generally speaking, I think it's been very positive, people. This is one of the hardest things in the planning experience is to help people understand their spending. It's quite difficult, but if you spend the time and the individual commits to the process, we see that it yields fruits, it creates comfort. Understanding your spending is imperative to having a plan. Feeling at ease with your retirement. That's kind of what we see.

Keith: I think that's absolutely correct, Lawrence. Well said. And I would also add that it's. It's important

that individuals understand the direction of their spending, the directional spending. So, what might go up and what might go down, because that allows them to have better assumptions.

Lawrence: Yes, it's hard to get perfect, but if you're spending time and you're focusing on the general trends, that's a great way to do it.

Keith: Okay. This has been a great show so far. We're kind of getting close to wrapping up with a few takeaways. Before we get to takeaways, though, I want to ask you, Lawrence, what do you think about the rule, the 70% rule, sort of these basic rule of thumbs that individual's kind of toss out around out there with regards to how much they should spend relative to how much they're currently spending?

Lawrence: Yeah. So, in our experience, that's not really the case. You know, that implies that you have a 30% drop in your spending when you retire. And we see really the opposite is spending is at least the same and tends to actually go up a bit, especially early in retirement, the start of the Go-Go years. So, I think that rule of thumb, maybe as an average, but in our experience, people tend to spend more than they think.

Keith: Yeah. I think you're absolutely right. We have a client base that tends to save very well, prepare very well and have worked very hard their whole lives. And they have the ability financially to, to sort of increase the spending. So that's what we typically see is increased spending. But I do think for a fair number of Canadians, they just don't have that luxury, unfortunately. So that I think is where that rule tends to maybe align. What else do we see with regards to spending? You want to just talk about the general spend pattern and then we'll, we'll move to takeaways.

Lawrence: Yeah, I mean it's really a curved pattern.

Keith: Right. So, you got a spike up at beginning being 10 to 15 years.

Lawrence: Correct. Yeah, in the Go-Go years and then a dip, generally speaking, in the Slow-Go years and then sometimes a tick up, kind of a Nike swoosh in the No-Go years or a continuation of a downward trend. But again, everyone's situation is very unique. These are general trends that we see. It's very important to have a grasp on what your spending is.

Keith: Fair enough. Now you say that. Let me ask you a personal question. Have you done your own retirement plan based on projections?

Lawrence: Of course I have. I mean, I'm a pretty financial guy. That's what I do for a living. I have my number in mind, and I know what I need to save to get there. I don't think I'm in the majority here as someone in my 30s who have done this, but having this number in mind creates a path for me that I want to follow to have my goal retirement.



Keith: Fair enough.

Lawrence: Yeah. What about you, Keith ?

Keith: Well, so Lawrence. Yeah, listen, you're in your early 30s. I think that's amazing. When I was a young bond trader in my early 30s, I actually did the same thing. You know, when I think back in time, you know, myself, who was pretty technical bond trader, you know, it's very detailed. I underestimated my spend.

Lawrence: There you go.

Keith: And because I didn't, I couldn't actually imagine as a 35-year-old what my life actually would look like. I probably got a bunch of things right, but I clearly got some things wrong. And a part of that is lifestyle creep. You just want more as you, as you, as you age.

Lawrence: Exactly.

Keith: So. But I think the important thing here, it's never too soon to start working on these projections. Individuals should for sure be doing projections in their 40s.

Lawrence: Yes.

Keith: Like for sure and for sure pre retirees. And it will bring tremendous peace of mind. I'm going to ask you for your takeaway in a sec. But I guess my takeaway would be embrace the process because getting this right, although it might create a bit of worry and anxiety around oh my God, I don't know what my number will look like. But actually, doing it will in turn give you much more peaceful outcome, much more confidence in your future.

Lawrence: Well said. Yeah.

Keith: So, Lawrence, what would be your major takeaway?

Lawrence: Yeah, I think for me, very clearly, it's the start early, right? As we've said. And it's an iterative process. It doesn't happen in one day. You have to reevaluate your spending and continue to monitor it as you approach retirement and in retirement, because life changes and your spending will change with it.

Keith: That's a fantastic takeaway, Lawrence. Thank you so much. And thank you for doing the research, helping, getting involved, and for all your comments in today's episode. To our listeners. Thank you very,



very much for tuning in. We hope you found this episode helpful and informative. If you have, please share it with folks that you think could benefit from it. Thank you and we'll see you next week.

Lawrence: Take care.

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