The 3 Pillars of Spending during Retirement

22

The 3 Pillars of Spending during Retirement

Increase annual expenses withdrawal according to inflation rate

Blind Withdrawal

Blind Withdrawal

- It is a conventional retirement plan or calculator is built on assumptions that you incrementally withdraw your annual expenses during your retirement years according to inflation rate to sustain your retirement.
- If your retirement nest egg actually got hammered by negative investment returns in the first few years of the retirement which is absolutely critical. We reduce our spending based on our economic conditions.
- Prudence is the common sense to do. The point is withdrawing incrementally intended inflation rate over the years. It cannot be applied blindly.

22

Living Expenses

Increase your living expenses or withdrawal per inflation rate

Living Expenses

Living Expenses

- Conventional retirement plan or financial plan actually says that over year after year, you increase your living expenses and hence your withdrawal to sustain your living expenses actually increase year over year. Inflation rate increase will increase just to sustain your lifestyle.
- Do retirees really spend more in their retirement until the day that they die? Now we are not talking about medical expenses and we exclude medical expenses over here. Now it's very likely that retirees actually reduce their living expenses as they age.
- But as they age their health and energy actually declines. They won't be doing so extensive traveling much in the later years of retirement and that relates to living expenses.

Compounding

Your spending pattern is of the utmost importance in retirement

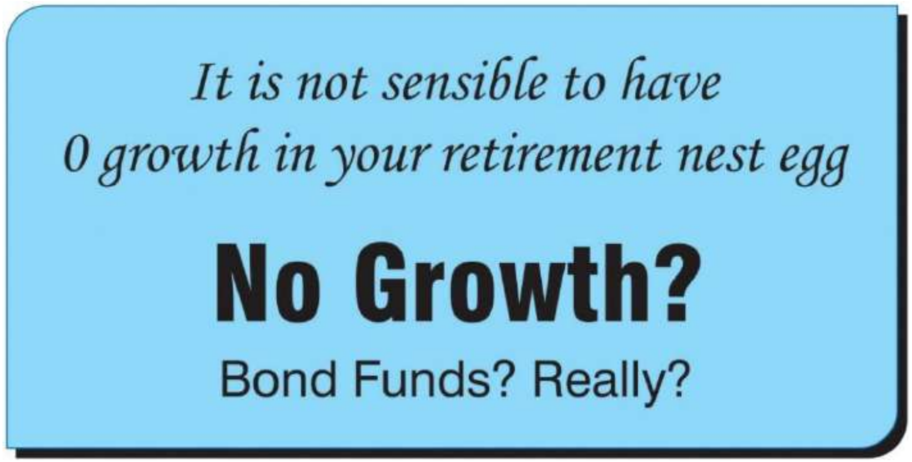
Compounding

It's no Magic anymore

Compounding

- Even if a small percentage of return value is really spread over a long period of time you can actually enjoy the magic of compounding over the years.
- Retirement time horizon is usually related to shock the post retirement years, two things are more important than anything else that is your spending and the total savings that you have in your retirement nest egg.
- If you don't have a sizable retirement nest egg, the problem is that you actually exhaust your retirement fund pretty soon. That is one thing to keep in check during retirement.

No Growth?



- In retirement planning they say that after retirement your risk and your risk appetite goes down. So that's why you invest in something that actually gives a lot lower risk like bond fund.
- You only get your consistent income but there is no growth in your capital. So the recommendation of bond fund for long term post retirement investment if you have still like 10 or 20 years to go into retirement.
- Capital appreciation in property is capital growth as well besides providing income to rental. You have to invest in stocks and real estate investment trusts, stocks that give you capital appreciation income in terms of stock price appreciation, besides the very consistent dividend income that you actually receive from it. No growth for your retirement is absolute nonsense.