

LABOR DAY GRATITUDE

Labor Day is upon us, and as we celebrate the social and economic achievements of American workers, we also may ponder what happens in the so-called “golden years” after we finish working and reach retirement.

Labor Day is a holiday celebrated with barbecues, extended vacations, beach days, or just time for rest and relaxation. During the working years, clients save for retirement using different financial vehicles with the hope that their assets will outlast their life expectancies to achieve the end goal of a comfortable retirement.

Since hope is not a strategy, clients may benefit from understanding what happens during the spending and distribution phases in retirement.

We'll focus on retirement spending and David Blanchett's “retirement spending smile.”

In 2014, Blanchett observed a retirement spending smile, which corresponded to a consumption pattern in his data. The pattern shows that during retirement, spending decreases. This makes sense because spending generally decreases as clients get older. During the Go-Go years of retirement, a retiree may spend more on vacations, entertainment, or a dream car; however, these expenses tend to decrease as retirees age. Ty Bernicke published an expenditure table showing that on average, those ages 75 and older spend less than those ages 55-64, supporting the idea that spending decreases as age increases. This coincides with Blanchett's retirement spending smile, which shows that for those ages 65-85, spending decreases by approximately 26%. The decrease is a result of a reduction in discretionary costs for a retiree. Blanchett does, however, show that for

those ages 85 and older, spending increases due to retirees' costs for healthcare. As retirees continue to live, their costs for healthcare could potentially surpass the initial annual budget they planned for.

I know what you're thinking: a retiree shouldn't need to worry about continuously saving during the working phase, right? Not so fast. It's a little more complex than that. Remember, once a client reaches the No-Go phase in retirement, retirement spending increases. During the gap, while spending decreases, a retiree can do the following:

- **Continue to Save.** This stage of saving could include purchasing an annuity that offers an income benefit with a credit enhancement feature, for an additional cost. If healthcare costs increase, a retiree can turn on the income benefit to supplement spending. Discipline will be key as a credit enhancement feature applies only if there are no withdrawals from the contract.
- **Design a Legacy Plan.** As discretionary costs reduce, a retiree can put money aside for future generations. This can be through the use of life insurance, 529 plans, or other savings vehicles. Consider different tax-efficient strategies because regulations have changed on beneficiary distribution options for qualified accounts.
- **Plan for Long-Term Care.** To avoid long-term care risk in retirement planning, use the additional income to purchase long-term care benefits.

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- **Take Investment Risks.** As spending from ages 65-85 decreases, a retiree may consider taking a more aggressive investment allocation to reap the benefits of a higher return due to higher risk. To build confidence, an investment in an annuity with a guaranteed minimum accumulation benefit could be added, for an additional cost, to ensure the client will receive all or a portion of the premium back regardless of market performance.

As you relax and enjoy the extra time off during this Labor Day weekend, remember to reach out and congratulate clients on the hard work that has gotten them this far. Encourage them to plan for spending in retirement so that they can enjoy their comfortable post-labor golden years.

[Additional Resources and Links](#)

[Retirement Planning blog posts](#)

[Average Household Expenses by Age Groups](#)

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
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