



The Shift from Saving to Spending: How to Budget in Retirement

For decades, you have worked hard to master the art of accumulating wealth—building a portfolio through disciplined saving, strategic investing, and careful financial planning with your BLBB advisor. After years of saving for the future, you suddenly approach the threshold into retirement. You now must learn how to create a smart retirement budget, manage spending, and make the most of your retirement income. In addition, the psychological adjustment from saving to spending represents one of the most significant shifts in your financial journey, particularly when you're considering not just your own security, but also the legacy you'll leave for future generations and the philanthropic impact you want to make.

You have worked closely with your BLBB team to create a financial plan and made appropriate adjustments along the way in anticipation of this life-changing event. For most of us, the transition still brings with it a host of new questions:

- *When should I start claiming my Social Security or pension benefits?*
- *Which accounts should I draw down first? Tax-deferred, tax-free, or taxable?"*
- *How much can I withdraw each year and still be confident I won't outlive my savings?*
- *Am I financially able to handle a possible medical emergency or long-term care expense?*
- *Which assets are best to set aside for my loved ones – and how?*
- *How will I stay engaged and connected once I'm no longer working?*

These are all important decisions that may directly impact your quality of life in retirement. And converting a lifetime of savings into a predictable retirement income stream requires careful planning that encompasses:

- A full understanding of all your guaranteed income sources as well as other potential sources of retirement spending sources;
- A clear vision of your retirement goals and desired lifestyle, along with a realistic estimate of the income that will be required to fund them; and

- A strategy to address unique new retirement-specific risks (i.e., longevity risk, inflation risk, withdrawal risk and sequence of returns risk).

Rather than revolving around a time horizon, an income plan focuses more on the priority of your retirement goals – which retirement expenses are essential, important and aspirational. Ideally, the goal is to align all your essential goals with income derived from guaranteed sources. This way, strategic withdrawals from your portfolio assets can be used to fund other important and aspirational goals.

Know Your Retirement Income Sources

After decades of saving and investing, you should have a number of income sources as you enter retirement:

- Some of these, like Social Security and pensions (or possibly an annuity) are guaranteed.

Don't overlook [Social Security retirement](#)¹ benefits, even with substantial assets. For high earners, Social Security can provide \$40,000-50,000 annually in inflation-adjusted income. Strategic timing of Social Security claims—particularly for married couples—can maximize lifetime benefits and provide valuable insurance against longevity risk.

- Others such as your 401(k), IRAs, brokerage and savings accounts, and maybe a rental property will fluctuate in value depending on the market.

How and when do you tax-efficiently convert all these various sources into income? Since different types of retirement accounts have different tax rules, it's a good idea to work with your BLBB advisor as well as your tax professional to create a comprehensive income plan. Where possible, you may want to consider consolidating some of these accounts for the sake of simplicity – such as combining several old legacy employer 401k plan accounts into a single Rollover IRA.

Don't underestimate the importance of Social Security. To learn more about the claiming decisions that can impact your own Social Security benefit, check out our "[8 Things You Should Know About Social Security](#)" article.

For most of us, the days of being able to count on a combination of Social Security and pension benefits to generate additional income for a comfortable and fulfilling retirement are a thing of the past. Not only are we living much longer lives (retirements today often last 30 years or more), but we've also increasingly become more personally responsible for generating the lion's share of the income we will need.

If after assessing all your income sources you are still concerned about not having enough guaranteed income, you may want to consider allocating a portion of your retirement savings to an income annuity. Some annuities can even be structured to deliver income over two lives; so married couples can set one up to provide an income stream that continues even after the death of the first spouse.

Retirement Expenses

While it may be challenging to accurately gauge your expenses in retirement (especially if it is still a few years away), it is important to try. A great place to start is by prioritizing all your expenses into three main categories:

1. Essential Expenses: the things that you absolutely can't do without, including housing, food, clothing, transportation and healthcare
2. Important Expenses: although not essential, these are nevertheless key to a fulfilling retirement; things such as traveling, dining out and entertainment, memberships, and perhaps funding educational expenses for your grandchildren.
3. Aspirational Expenses: these are the things you don't *need* for happiness but would still like to have. Perhaps it is being able to purchase a second vacation home, or maybe it's leaving a meaningful legacy for a charity that is important to you.

When estimating costs, keep in mind that the location/city where you plan to retire will have a major impact on those costs. So, factor that cost of living into your calculations. And pay especially close attention to projected healthcare expenses. These can be both costly and difficult to quantify. Lastly, don't overlook or underestimate the cost of long-term care which can quickly deplete your savings and is not covered by Medicare.

Perhaps the most critical part of this exercise involves identifying and quantifying any gap that exists between your expected annual income and expenses. You will need to address this either by generating additional income or cutting back on expenses.

Retirement spending strategies and tools

In addition to guaranteed income from Social Security, a company pension and/or any income annuity you may own, you will want to design a systematic withdrawal plan to provide additional needed income. Here's how it works:

- You withdraw a fixed percentage of your portfolio's assets each year
- Subsequent year withdrawal amounts are increased to keep pace with inflation
- Each year your remaining assets are rebalanced to maintain your target asset allocation

While many advisors rely on the 4% rule (which states that you can realistically afford to spend 4% of your wealth each year in retirement), we find that rule can be overly simplistic. Calculating a sustainable spending rate differs from person to person depending on a range of factors including your age, health and risk tolerance.

Your BLBB advisor can provide a variety of retirement planning tools and support to help you plan around retirement income and expenses as well as estate planning. Additionally, the [usa.gov](https://www.usa.gov) website offers a host of online [worksheets, calculators and tools](#) that can help you to create and refine a personalized retirement spending plan.

And finally, while creating a realistic retirement budget is critical, it's not the only aspect you will want to plan for. Transitioning from the workforce to retirement can also present emotional challenges – from finding a new sense of identity and purpose (for many of us, our sense of self is wrapped up in our careers) to establishing new social connections. Take a few minutes to read our "[Managing the Emotional Aspects of Retirement](#)" article for a deeper discussion on this often overlooked but important topic.

With proper planning, strategic thinking, and regular monitoring, you can confidently enjoy your retirement years while preserving assets for the causes and people you care about most. The key lies in creating a flexible, comprehensive financial plan that adapts to changing circumstances while staying true to your core values and long-term objectives.

Together, let's sit down to review your income expectations and spending needs, identify solutions for any gaps, and create a retirement budget that will provide you with confidence to enjoy your future.

BLBB does not provide tax advice. Please consult your personal tax advisor.

¹<https://www.ssa.gov/retirement>



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