CHAPTER 1

# A (Too) Free Flow of Cash

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I was talking to a client who was living the good life in Florida. Julia owned a beautiful penthouse condominium, drove a sporty car, traveled frequently with friends, and wore ultra-stylish clothing. Looking at her, you would have thought everything in her life was going well. Underneath the surface, however, lay the nagging question of whether Julia's assets could support her extravagant lifestyle forever. Condominium fees and real estate taxes were upward of $100,000 per year, and her travel expenses typically amounted to about $10,000 per month. She was enjoying life, and why not? This was the way she had lived when she was married, so why should things change?

In her divorce, Julia received a generous settlement, which included her luxury condominium. Of course, she felt her home needed to be thoroughly renovated postdivorce, to reflect her new outlook on life. Essentially, Julia was spending money like she had no financial constraints whatsoever. The divorce agreement did not include lifetime spousal support, however, so she needed to make sure she could live on the assets she received in the settlement.

After a candid conversation with Julia, I realized that she needed help organizing her finances and then gaining control over her spending. She needed some guidelines for setting an appropriate monthly spending limit for herself.

My suggestion that Julia downsize her home to get out from under the large housing expense did not go over well initially. But she came to understand the potential crisis looming and began looking at other housing options. That was the first and most important step: Getting her to recognize that her spending issue was real and that she needed to change certain habits if she wanted

to continue enjoying some of the other things that were important to her, such as traveling. Sometimes we have to start with baby steps, even when a big change is ultimately required.

As financial advisors, we see situations like Julia's – in which people are living a lifestyle that outstrips their means – more often than you might imagine. You read celebrity versions of these stories in the press sometimes. The front page will be emblazoned with a headline about a major sports star or movie actor who retired several years earlier and now is declaring bankruptcy. From Jerry Lee Lewis to Gary Coleman to Lenny Dykstra, we've seen dozens of formerly wealthy celebrities file for bankruptcy over the years. Because these celebrities made millions of dollars at the pinnacle of their careers, they think they are eternally rich and can live the high life forever. They forget that their stratospheric income is no longer coming in and they need to live off the assets they've already accumulated.

## Your Retirement Spending Picture

How do you envision your life as you grow older and begin working less or retire altogether? Will you travel the world on luxury cruises? Spend half of every year on the white sands that stretch in front of your new beachfront home or Caribbean bungalow? Or perhaps you plan to buy that picturesque horse farm you've always yearned for and occupy your time cultivating the next Derby winner. If you've built up your wealth and planned for this future, these dreams may well be within reach. But it's also possible that unrestrained spending could lead you down a path that will ultimately crack your nest egg. Which scenario comes to pass depends not only on your level of wealth and on how many hefty expenditures you make, but on what you want to accomplish in retirement and the trade-offs you are willing to make to achieve your goals.

Imprudent spending is one major reason people fail at retirement – and it lies at the root of many of the other potential pitfalls I talk about in this book, from the purchase of vacation homes to overgenerous support for adult children. So how can you tell the difference between a luxury (or a lifestyle) you can happily afford – or are willing to make reasonable trade-offs for – and an indulgence that will ultimately undermine your retirement goals? What separates a hard-won dream from a serious mistake? Before we can examine overspending, we have to look at broader spending philosophies

and at some of the ways that spending in retirement differs from outlays you make while you are still working at full capacity.

When evaluating retirement plans, nearly everything centers around spending, either directly or indirectly. Most people are, in fact, overly cautious, so the number of people who jeopardize their retirement due to extravagant purchases is not large by percentage; but overspending is a significant problem for those who have it. And sometimes a pattern of free spending is enough to raise caution flags, even if no single expenditure is outsized.

When you are working full time and have a healthy income, it is easy to develop lavish spending habits. Nice vacations, meals out at upscale restaurants, frequent shopping trips, and other treats are among the ways people reward themselves for a productive week's work and cope with the stresses that come with a busy life. In retirement, people may have the same desires for material possessions and entertainment that they had before they stopped working, but now they have more time – more time to travel, more time to shop, more time to pursue potentially expensive hobbies or interests like collecting cars, starting a winery, enjoying multiple homes, or indulging in large-scale boating. And in retirement, their income is a fraction of what it once was, so it's easy to overspend assets.

While conventional wisdom dictates that people need 80% of their preretirement income to maintain their lifestyle in their post-work years, recent research has shown that spending patterns are actually quite variable – while some households do indeed reduce their spending considerably, nearly half spent more in the first two years of retirement than they had while working.[1] And 28% of the retirees surveyed spent more than 120% of what they'd spent in the years preceding retirement, with the majority continuing that pattern of increased spending into their sixth year of retirement.[2] So, while 80% may indeed represent an average, the spending picture is uneven, with some households cutting spending by a sizable amount and others actually increasing their outlays rather dramatically. According to the data, most of the increased spending was discretionary in nature, used either for travel or for home expenses.

In retirement, you may not be taking a hard enough look at your household spending. As an executive you might have been brilliant at developing business strategy, assessing corporate cash flow, and understanding the company's financial health, but it's possible that you do not take the same clear-eyed view of your own finances.

It's much more difficult to see your personal spending rationally, particularly when what you *should* do and what you *want* to do are in conflict.

In the corporate world, you are playing with other people's money; when it comes to personal finance, you are, of course, dealing with your own, and your spouse has a say in how the money is being spent. Once you're retired, you are unlikely to be adding to your retirement bucket. You have a finite amount of assets to draw from over an uncertain period of time. For most people, living within one's means requires careful thought and planning.

We find that, for most people, managing their personal finances has never been their strong suit. If you are a person whose career success has come in law, business, sports, or entrepreneurship – or if your money has come to you through an inheritance – you may not be attuned to the details of cash inflows versus outflows and how they relate to your lifestyle and investment assets. You were bringing in more than enough money, so there was no need to pay close attention to what was gushing out.

When you are used to having money in the bank, you may be inattentive to your spending habits. And as long as cash is coming in at a brisk rate, that approach may work. But what happens when your income slows or stops, either because you've decided to retire or because your circumstances change? How will you make the transition from an income based on full-time work to an income based primarily on your investment assets' performance, which is often much less than what you'd been bringing in? How will you decide what "appropriate" or "lavish" spending is, and how will you reset your habits if you need to?

## Priorities, and Who Decides Them

One of the difficulties is determining who decides what lavish spending is. Is it the husband or the wife? Do the in-laws, children, friends, or neighbors influence spending decisions? It is easy for people to make judgments about excessive spending when critiquing another individual or family – typically, the definition of *excessive* is "more than I would spend" on any given item or category.

But people see life differently, and their priorities and spending patterns often originate in their upbringing. Growing up in a family that was either financially stressed or spent extravagantly, hearing frequent parental arguments about finances, and suffering childhood

trauma of various types can lead to a complicated or unhealthy relationship with money. Sometimes a person's individual temperament and/or the financial behaviors he or she learned growing up contribute to spending patterns that later cause conflict with a spouse.

Husbands and wives very often have different money personalities. They simply look at money and what it means differently. One spouse might think buying a new car every three or four years is unnecessary and wasteful, while the other considers it a normal and appropriate expense. One partner might view the kids' private school tuition as an extravagance, while the other sees it as an essential investment in their children's future. Who decides, and what impact will those decisions have on the couple's retirement goals?

According to a 2016 Ameriprise survey, approximately 31% of couples disagree about finances at least once a month. The most common points of disagreement are major purchases (34%), decisions about finance and children (24% of respondents who have children), a partner's spending habits (23%), and important investment decisions (14%).[3]

I was working with a husband and wife, Mark and Teri, both of whom had great jobs, but, based on our financial analysis, were not saving appropriately for their retirement. These two were setting aside money in their 401(k) plans but, given their income level, they needed to save a lot more if they wanted to generate a retirement income in line with their lifestyle.

The biggest obstacle to saving was that Mark and Teri had two children in private middle school at a cost of $30,000 per year, per child. That meant they needed $60,000 in after-tax dollars for tuition. In their tax bracket, the first $110,000 of their income ($60,000 after taxes) was going toward schooling – and this expense was going to continue for five more years before the children were off to college. And, of course, it was likely these kids would be attending private colleges at more than $50,000 per year, per child.

I knew that the neighborhood the family lived in had fabulous public schools because my children attended those schools. So we explored why these parents felt the need to have their kids in private middle school, potentially disrupting or delaying

the couple's own future retirement. As we discussed the matter, it became clear that Mark felt they had to "keep up with the Joneses." They were running with a well-heeled crowd, and he felt the need to say, "My children go to the Potomac School" (a very prestigious school in our area).

While the school was, no question, a fine one, Mark's pride was the real issue: Sending one's children to that particular school was a notable status symbol. Teri, a successful attorney, had grown up in a middle-class neighborhood and attended public schools. She went along with the decision, even though she was concerned about the cost.

Many couples face dilemmas similar to Mark and Teri's, and they are not easy ones to solve – especially when two equally worthy goals are competing, such as a solid education for the kids and an ample retirement portfolio for the parents (setting aside here any status-seeking motives). Neither partner is right or wrong when it comes to these spending decisions.

Appropriate spending comes down to priorities and to what is reasonable given your personal finances, values, and goals. If you have a goal of retiring at age 60 or 65, you must consider: Does this particular decision draw you closer to your goal? If the answer is no, you have to ask, is this expenditure worth what I must trade for it? For example, is a private education for your children (or your grandchildren) such a high priority and core value for you that you are okay delaying retirement? Either yes or no may be the right answer for you; it all depends on what you want to do with your money and the sacrifices you are able and willing to make.

For every financial decision, you have a choice: Save or spend. For each major spending decision, ask: Does this expenditure reflect what is important to us? What is the impact of the decision on those around us? Will our personal finances support this decision? Does the decision support our family's values? Are we moving closer to our personal goals with this decision?

In Mark and Teri's case, spending on tuition created stress for Teri, but Mark felt strongly that they were making the right decision and should stick with it. As we dug a little deeper, we learned that Mark had an unspoken backup plan. He talked about a potential and likely inheritance from his parents, which he anticipated would fully replace the education costs and adequately fund their retirement account. The actual inheritance would likely be a long

way down the line – and wasn't a certainty – but the probability that they'd inherit a sizable amount allowed him to sleep at night. Mark and Teri elected to keep their kids in private school, and we agreed to review education costs and retirement needs annually.

## Setting Goals

Take some time to reflect on your goals for this next phase of your life, a period when you have either stopped working or have slowed markedly. How will you spend your time? What kind of lifestyle do you expect to have? What will your days look like? Tally all the things you'd like to do in a typical year, and also the things you'd like to do for family. Think ahead, too, to how your life might change as you age, and make provisions for unforeseen events.

Researchers have discovered that, though people may have a realistic understanding of how much income they have, they have blind spots when it comes to forecasting expenses.[4] They focus on what is coming in and underestimate what is going out, which leads them to be overly optimistic about what they can afford. Talk about your projected expenses with your financial advisor. Get a second opinion and some feedback. Financial advisors deal with income versus spending issues all the time, so we have many experiences to draw from to help you find the right path for you and your family.

A strong financial plan takes into account your monthly expenses such as housing, food, entertainment, and health insurance; savings for purchases such as a new car or for major home repairs; extra expenses you want to budget for in retirement such as travel or home health care; and taxes you will need to pay. You should also think about other things you may wish to pay for, such as contributions to an adult child's wedding, a child's medical school tuition, or a grandchild's college bills. Once you have a firm sense of what your projected outlays are, you will be able to think about the other things you want to do and how they will impact your overall plan.

I remember receiving a call from a client who said he needed to pull $35,000 from his account for an unexpected expense; his roof had a major leak and needed to be replaced. I asked how old the roof was, and he said, "Twenty-five years." I wondered if this expense was "unexpected" because it occurred in July or because he thought the roof would never need to be replaced! Make sure to plan for those

nonrecurring expenses such as home and auto repairs, along with recurring expenses.

What we are really talking about when we discuss goal setting and spending plans are the trade-offs you need to make in life, reflected in the way you spend the income or assets you have today. A spending plan, in essence, codifies what is important to you and helps you think through the impact of the decisions you make. Your choice always comes down to this: Spend now or save for future goals.

Have you ever made a major spending decision and then looked back on it a few years later and wondered, "What was I thinking?" So often, spending makes you feel good. It is incredibly rewarding... until you think about your purchase a few months or years later. You probably make more of these questionable decisions than you realize: Joining the country club, buying the boat, splurging on a blowout wedding for your daughter, buying the second home, making major charitable gifts or family gifts. The particular decisions you make about finances are less important than the practice of evaluating what you want to do and setting a spending plan that aligns with your values and your financial goals.

The challenge also comes when you can't seem to say no to anyone, knocking your spending out of alignment with your stated financial capabilities. Your child asks for financial help to support a personal need, the church asks for additional donations, a friend suggests a wonderful trip that your families should take together, your spouse is excited to buy this new boat that will bring the family together on weekends, and so on. But will saying yes to all of these things get you closer to your objective? It is the nature of priorities that not everything can be at the top of the list.

## Funneling Your Wealth to Meet Your Goals

When thinking about your spending in retirement, what matters most are your sources of income. These typically include your Social Security income; potentially, income from a pension plan; and the income generated from your investment portfolio (both retirement and personal investment assets).

As a general guideline, when we look at the income from your investment portfolio, we figure that you can, at the outset of retirement, safely withdraw about 4 to 5% from your portfolio on an annual basis to cover expenses in retirement and still expect

to maintain your financial independence over the long term. That means if you have $1 million saved when you retire, you can safely take out $40,000 to $50,000 per year; if you have $2 million, you'll be able to withdraw $80,000 to $100,000. The withdrawal amount can increase as you get older, as we'll discuss later.

Understanding and planning for your income and spending needs is critical to making smart investment decisions. We illustrate this using a funnel approach, shown in Figure 1.1: Funnel #1, your Income Funnel, is for your steady income, which includes Social Security, pension, any annuitized income, and salary if you are still working, either full or part time; Funnel #2, your Portfolio Funnel, is for your assets. The income from Funnel #1 should be your first source of funds for living expenses. If you have excess income flowing through Funnel #1 – meaning that you are spending less than your primary income sources bring in – then the excess goes into Funnel #2 and adds to your investment portfolio.

Having excess money to pour into Funnel #2 is a terrific scenario, but unless you are still working or have a significant pension income, that happens only rarely. More often, our clients are spending more than their primary sources of income bring in, so they need to get income from their investment portfolio. Here, Funnel #2 comes into play: We need to allocate your assets so that they provide a 4 to 5% annual distribution that – when combined with the income from Funnel #1 – is a comfortable amount for you to live on. This is the key to a financially successful retirement.

Being too conservative and allocating all your assets to short-term bonds or low-risk investments means that you may not be able to withdraw what you need in retirement. Investing too aggressively can result in losses that may completely disrupt your assets, which means you may not be able to withdraw at a rate that can support you in retirement. Getting Funnel #2 invested correctly is critical to bringing you peace of mind and achieving your long-term retirement goals.

## Building Your Portfolio

You should build your portfolio around two main factors: (1) How much risk you can *afford* to take and (2) how much risk you are *willing* to take. The amount of risk you can afford to take is the critical decision, and this depends on how much you spend now and how much you expect to spend in the future.

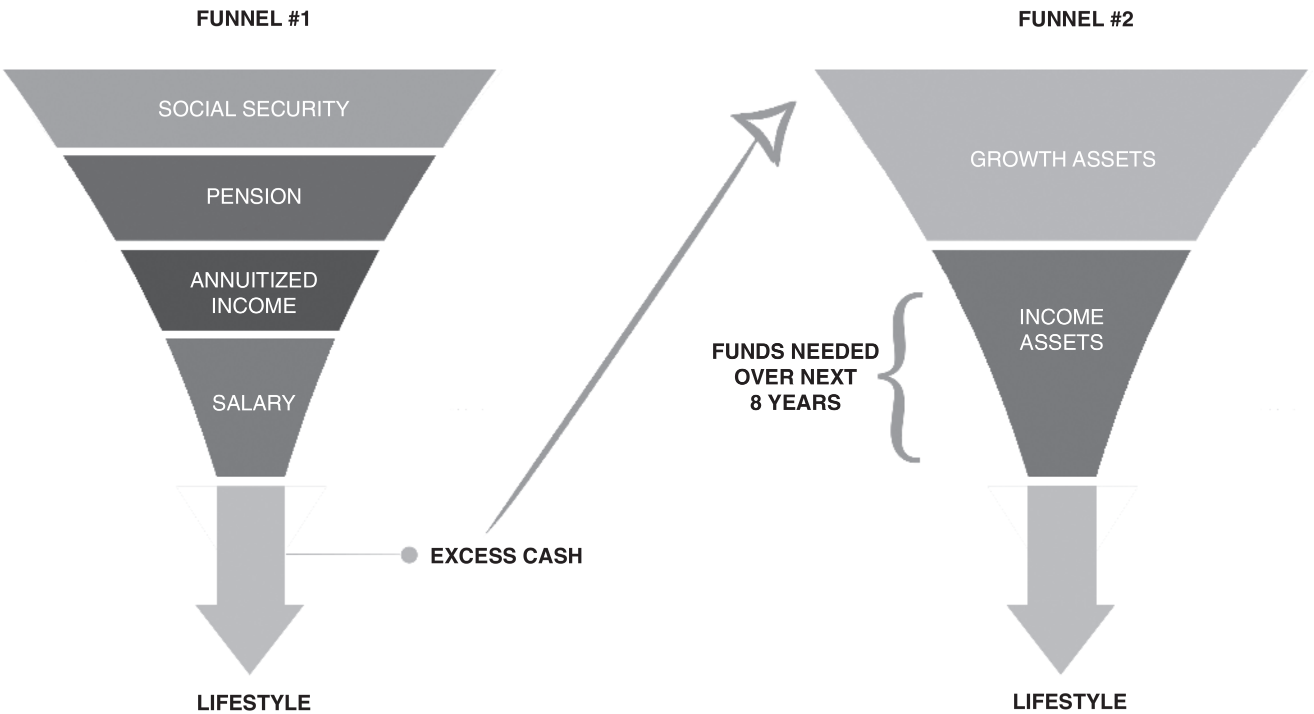


**Figure 1.1 The Retirement Funnels**

The risk you are willing to take depends on your personal tolerance, which was likely shaped in your childhood by your family. It is interesting to me that a client's level of education does not seem to have any bearing on his or her risk tolerance. Being well educated, with an advanced degree such as an MD or JD, or even an MBA, does not mean that a person will have any better understanding of investment risk (and therefore greater risk tolerance) than someone with only a high school education.

My dad never completed college, but he had a great understanding of investment risk. He was a terrific investor because he grew up in a family that was active and somewhat daring with their investments, and he was a great student of investing, reading all the investment classics. I still have his copy of Benjamin Graham's *Security Analysis,* and many others from his library, on my bookshelf.

Mom grew up on a hog farm in Illinois and married my dad when she was eighteen, two weeks after they met on a blind date. She didn't study investing like my father did, but she has a keen understanding of her cash flow and of the risk she can and is willing to take. Understanding this stuff doesn't require a PhD or a degree in finance, but it does help to have someone with knowledge and experience to guide you. Most people would be surprised to see that, at age 86, my mom is mainly invested in stocks, mostly dividend paying, rather than bonds. Sure, I get the call from her when the markets are not being kind to us investors, but her question isn't as much about the loss in market value as it is about making sure her income is secure and her dividends are still going to be paid.

Build your portfolio around your forecasted cash needs, investing the amount you are likely to need over an eight-year period in lower-risk assets. Let's assume you retire at age 66 and you can start collecting Social Security and/or pension income at that time. For the purposes of our example, let's say you will collect $40,000 in Social Security and pension income, and that you do not have any salary or other source of income outside your portfolio income. Next, let's assume your annual cash flow needs are $120,000 per year.

Begin by making sure you have a secure source of investment assets to support that additional income need of $80,000 ($120,000 – $40,000). There are two ways to do this, and the method you choose will depend on the size of your portfolio. If you have a portfolio large enough, one in which the interest and dividends

are equal to or greater than the $80,000 income need, then you can build an income-based portfolio of bonds and dividend-paying stocks. Otherwise, you will need to rely on interest, dividends, and long-term growth.

Given a portfolio of $2 million, we would allocate $640,000 ($80,000 × 8) in lower-risk income-producing assets (certificates of deposit [CDs] and bonds) and the remaining $1,360,000 ($2 million – $640,000) in longer-term growth assets (stocks, real estate, and alternative assets). This puts 68% of your assets in a long-term growth position and 32% in lower-risk income-producing assets. Think of the $640,000 as your umbrella – you want it available when it rains!

Why do we multiply your annual income need by eight? That is a good question. We have found over the years that stock market volatility is one of the biggest concerns for our clients, and it can create one of the largest disruptions to a client's portfolio if not handled properly. Stock market cycles (the up and down volatility) vary greatly but are typically not more than five or six years in length. If you must sell your investments during a down cycle, it can be very difficult to recover from losses and maintain your lifestyle. So we create an umbrella that protects you from those rainy days. We build your portfolio with eight years of safe assets that won't be as volatile during a downturn. You can use those assets to meet your cash flow needs, which allows the more volatile assets eight years to move through the cycle and recover.

To consider yourself financially independent, you need to have enough secure assets to get you through any market cycle. If the market takes a big tumble, you don't want that drop to upset your retirement plans. History shows us that a decline in the markets will occur, often when we are not expecting it. That is why you need the umbrella – you don't want to be forced to sell quality long-term assets at the wrong time. The success of your investment strategy will depend on your discipline in staying with your investment allocation when the markets get rocky.

In my 30-plus years as a financial planner, I have never seen a situation in which a client followed the process we outlined and then ran short because the portfolio didn't perform properly. When clients have accumulated enough in retirement savings during their working years and yet later struggled to maintain their financial independence, it is typically because they've made

decisions based on emotion and spent assets in a way that isn't aligned with their plan.

As you age, the percentage you can withdraw from your portfolio per year may rise because your time horizon is not as lengthy – the span of time you will need your money to last is shorter. This will depend, of course, on the level of assets you started with. But when you are in your 80s, it may be perfectly reasonable to relax the spending guidelines. A general rule of thumb is to spend 4 to 5% of your portfolio each year in your 60s, 5 to 6% in your 70s, 6 to 7% in your 80s, and 7 to 8% in your 90s. Expect longevity. Once you have reached age 80, your life expectancy is nearly 89 years (88.20 for men and 89.64 for women in the United States), according to the Social Security Administration's actuarial life table.[5] Remember, these are averages, so 50% of people live beyond these life expectancies.

Ironically, it is at just about the 80-year mark that people typically begin to slow their spending. It is the rare 80-something who is contemplating going on an African safari. Most people in that age range are less able to travel or are less interested in it; they tend to go out less frequently to restaurants or the theater; and they are more likely to be giving away their material possessions than looking to acquire new ones. In these years, spending tends to naturally decline unless a big health-care expense arises, at which point it can pick up again.

We also see that in down years people tend naturally to spend less. When markets dip 10, 15, or 20%, behavior changes automatically. Most people will say, let's postpone that lavish trip to Europe or let's not buy the new car this year. I have watched this happen all across the income and wealth spectrum, even with wealthy clients who have $20 or $30 million. A single vacation or a new car, no matter how extravagant, would not affect the portfolios of these clients in any meaningful way, but they will tighten their belts, so to speak, until the markets recover. There's a basic human impulse to conserve in lean times, and the majority of people follow it. But I use the word *majority* for good reason.

## Getting Carried Away by Your Passions

Overspending would not be a retirement fail if every person were able to rein in spending and follow the guidelines we've discussed. Unfortunately, some people cannot, and in these cases compulsive spending poses a serious threat in the retirement period, when

income is typically curtailed. Ranging from too-frequent "splurges" to a pattern of compulsive spending that gets progressively worse over time, a shopping habit can take many forms.

On a daily basis we're assailed by approximately 3,000 advertisements, according to some sources, and these marketing messages are designed to convince us that we *need* the product or service on offer, and further that we *deserve* it.[6] With modern marketing telling us that we are what we buy and assuring us that the lavish lifestyles we see depicted in popular media are within our reach – and with easy credit all too available – it's not surprising that many of us get in over our heads.

Some people cannot seem to stop spending in areas about which they are passionate – and if the passion is an expensive one, it is easy for spending to spiral out of control. Collecting sports cars, boating, and horse racing are big-ticket leisure activities that come to mind. If a client has a passion for horses and racing and has the wherewithal to indulge initially, it can be easy to justify ongoing expenditures. When a racehorse that has had some success is injured just before an imagined big payoff, it's tempting to invest in another. And another. The payoff is always just out of reach, but the person has perpetual hope that the next horse is going to be a fantastic thing.

The problem is compounded when the outlay is not a one-time investment (and it rarely is); in our horse racing example, there are costs for trainers, grooms, exercise riders, blacksmith, veterinarian, and jockey; for supplies like bandages, feed, and bedding; and for stable and race entry fees and so on. Most high-stakes hobbies are similar – the associated costs are ongoing, and the more deeply involved you are, the higher the costs can go.

When the hobby that absorbs so much of your money is also the hub around which your social activity revolves, it's easy to get sucked in deeper, and the cycle is reinforced. Sometimes the spending is subtly (or not so subtly) about competition – when your friends and acquaintances are high rollers, you naturally want to keep up with them.

One way to stay involved with your passion but limit your financial obligation is to scale back your commitment without abandoning your hobby entirely. Our client with a passion for horse racing opted to buy a small share in a thoroughbred rather than taking on the entire ownership obligation. That way, he maintained a stake and was able to participate, but he wasn't on the hook for runaway costs.

Depending on the activity, there are multiple options for continuing to enjoy your hobby without spending a fortune: Partnering with others, renting rather than buying, or reducing the time you spend on your hobby can all help keep your plan in balance.

## Habitual Overspending

There is a category of overspenders who are less likely to have a consuming passion and more likely to just consistently spend more than they need to or can afford to. While any one expense – shoes, jewelry, furniture, concerts, meals at fine restaurants, vacations – may be reasonable, the pattern of spending can be a concern over time. Some people seem to have "overspending" as a personality trait, and they don't worry about large outflows of cash. Indeed, as long as the inflow is well above the outflow – even if the spending is what most of us would consider excessive – it may not be a problem. But when income drops and spending can't be controlled, difficulties arise quickly.

Experts describe a range of behaviors and attitudes with regard to money, from the healthy spender to the problem spender to the addictive spender. The act of buying can become a security blanket – people use it to calm themselves and make themselves feel good. For these spenders, shopping can boost their mood or relieve feelings of boredom or anxiety.

Indulging themselves (or others) gives such spenders a short-lived burst of self-worth, and they may overspend on services as well as on material goods. Often, husbands overspend on their wives and kids, and women on their husbands, children, and friends – these types of gifts feel acceptable because they demonstrate love for family and friends, and that sort of gift giving has the stamp of social approval. Indeed, there is nothing wrong with being generous toward your loved ones. The key indicator of healthy spending behavior is that the price of the item falls easily within your set budget without edging out other priorities.

According to a survey conducted by *Money* magazine, 22% of husbands and wives have spent money they didn't want their spouse to find out about. For women, the stealth items were clothing, shoes, and gifts for family and friends; for men, the clandestine purchases were for hobbies and electronics.[7]

There are times when the conversations about spending patterns are made more difficult by a complicated dynamic between husband and wife. In one particular case, married clients had stark differences in spending, financial interest, and age. Fred is married – a second marriage – to a woman who is about a dozen years younger than he is. While Fred brought most of the assets to the marriage and is very knowledgeable about their portfolio, his wife, Sharon, is not interested in financial matters. Sharon, however, has a spending habit that will eventually create a major problem for them, despite the fact that they had retired with a sizable nest egg. Our analysis shows that in the next 12 to 14 years this couple will need to downsize their home dramatically and lower their standard of living. The problem, ironically, will probably be Sharon's ultimately, as she is statistically likely to outlive her older husband.

Though we had several conversations with Fred – who attended our advisory sessions alone – about outsized household spending, Sharon's spending continued and he clearly felt unable to influence her behavior. Eventually, he gave up. The outcome for Fred and Sharon is still uncertain, as both continue to be healthy, but they have not curbed their spending in any meaningful way and their situation is not sustainable indefinitely. If they don't find a more balanced path, one or both – should they both live well into old age – may find that they've run out of money.

The scenario can be alarming for a surviving spouse, who may not realize how dramatically benefits will drop when the spouse dies. When a spouse passes away, Social Security payments can go down by a third and the pension for the surviving spouse may be cut by half or two-thirds, or may go away completely. If the surviving spouse has not been engaged in the discussions about finances, the reduced income may come as a shock.

## When Generosity Goes Awry

Though it may seem counterintuitive, charitable giving can also represent a problematic form of overspending, and can be particularly difficult to address because it comes out of the best of our human impulses – the desire to do good in the world and to share our wealth with those who are less fortunate. Making a large gift to a worthy cause – to fund cancer research, to supply medical aid in a war-torn

country, or to endow cultural institutions – feels good and brings accolades from the organization and your peers.

But some people feel compelled to give even when their portfolio is shrinking significantly. In these cases, making major donations on an annual basis impacts your investment accounts in a way that will ultimately leave you vulnerable. And unlike some other forms of spending, say on a vacation home that could be sold, the outlay can never be recovered.

We have a client who was committed to several charities that he had been involved in over the years, and he was widely known and respected for his work with them. He felt compelled to continue to give each year at the same level that he had in previous years, when he was actively working. His income had declined significantly, however, and his generous gifts meant that withdrawals from the couple's portfolio exceeded our preferred withdrawal range.

Although the couple was well aware of the dangers inherent in giving at the high level they had set before they retired, they continued, jeopardizing their lifestyle and ultimately putting a strain on their personal health. Slowing their contributions was obviously in their best interest, yet they were unwilling, or perhaps felt unable, to make the adjustment. That spending simply made them feel good and helped maintain their identity.

I have learned not to underestimate the importance of maintaining one's identity in retirement. As you transition from your years of active work and child-rearing to a period in which your activities are more self-directed, it can be easy to lose your sense of self. Some people seek to preserve their sense of identity by holding on to the activities or patterns that defined their lives before they retired. As we'll see throughout the book, avoiding retirement fail depends in part on navigating a smooth transition in which you find new ways to add purpose and fulfillment to your life.

## Reining In Spending

One of the best ways to curb unnecessary spending is to assess what *necessary* spending is. Sit down, with your partner if you have one, and decide what your spending will be for the upcoming month – *then stick to it.* Include all your essentials and leave a cushion for unexpected expenses and a couple of treats, but remember

that the exercise is about taking control of your spending and prioritizing in line with your ultimate goals. While *budget* feels like an outdated word, tracking your expenses and staying aware of where discretionary spending is running amok can help you make sound decisions about what you really should be laying out for which items or experiences.

Overspenders who have gotten into a deep hole will likely not be able to fix their problems by simply cutting out the morning latte or putting the designer suit back on the rack, however. More drastic action, such as selling a home that is realistically outside your budget or forgoing expensive family trips, should be on the table. Look with clear eyes at your overall picture and make the hard choices.

For a few, spending is an outright addiction not unlike alcoholism or drug addiction. Just as some people go into a bar and have to drink, and drink hard, some people have to shop hard. Chronic overspending that gets progressively worse can seriously jeopardize a person's retirement, as he or she spends down assets at a rate that is not sustainable. Those with truly disordered spending may have underlying emotional or psychological reasons for their behavior, and people who cannot gain control despite an awareness of the situation should consider counseling with a therapist who specializes in the treatment of financial disorders.

Fortunately, most overspenders are not so extreme. As we saw with Julia at the opening of the chapter, many people simply become used to a certain lifestyle and continue to spend freely, even when their income and asset levels can't sustain such outlays. Knowing how much money you have coming in, where your money goes, and what your projections for retirement are helps you make financial decisions that will put you on firm ground as you head into your post-work life.

### Help for Overspenders

- Develop a good financial plan that outlines your goals, estimates your expenses accurately, offers clarity about what you can safely spend, and provides for emergencies. Working with an advisor can help you get good, objective advice about what you can afford to spend and how to invest the balance wisely.

- Downsize if you must. Often, tinkering around the margins will not help your overall financial picture if your assets have dissipated past a certain point. It may be time to move to a smaller house and adopt a lifestyle that fits your budget well.
- Continue working longer. The converse of the prescription to cut spending is, of course, to bring in more income. Working longer, or returning to work if you've retired already, provides additional income to offset your spending needs and can help you build up your retirement assets again; and when you retire later, you will not need as much savings for that period.
- Consider other ways to enjoy your passions. As Jim Bruyette, my partner at SBSB, says, "Don't buy the boat. Make a friend who has a boat." Judge which expenses will truly bring you and your family lasting pleasure and which may be passing fancies. There are often other ways to enjoy the things you want to do, such as renting or sharing – or making friends.
- Seek professional help if your spending is truly out of control. If you can't seem to stick to a reasonable spending plan despite your best efforts, consider consulting a therapist who specializes in disordered financial behavior.