

# 7 Ways Your Expenses Will Change in Retirement

## Transportation and clothing costs decline, but watch out for new health care costs.

Retirees spend more money on health care than younger people.

Most retirees spend less than they did while working. A new Government Accountability Office analysis of 2013 Bureau of Labor Statistics data found that people in the pre-retirement phase of life between ages 50 and 64 spend an average of \$54,400 per year, but annual expenditures drop by \$12,500 among retirees ages 65 to 79 to an average of \$41,900. However, while overall expenses decline, there are some areas where retirees spend more than working people. Here's how your expenses are likely to change in retirement.

**Lower housing costs.** Housing is a major expense for people of every age. However, housing costs decline from an average of \$17,000 for people ages 50 to 64 to \$13,700 among retirees ages 65 to 70. There are a variety of ways retirees reduce their home ownership costs. "A retired household may spend less on housing if it pays off a mortgage or downsizes at retirement," according to the GAO report. "Alternatively, spending on housing may increase if a retiree moves into specialized senior housing."

**Fewer transportation expenses.** Giving up their commute to work is a major way retirees save money. Transportation costs decline steadily with age from \$9,600 for people ages 50 to 64 to \$7,900 among retirees in their late 60s and just \$3,600 for people age 80 and older.

**Reduced food costs.** Retirees have less of a need to buy expensive convenience food to save time. "Spending on consumer goods and services, such as ready-to-eat foods or car repairs, may be less in retirement than before because retired households have more free time to engage in in-home production, which includes activities like cooking and household chores and repairs," GAO reports. Food expenditures average \$7,700 for people ages 50 to 64, but drop to \$6,400 among retirees ages 65 to 79.

**Higher health care costs.** As you age, you will probably begin to need more medical services. The cost of health care tends to increase significantly in retirement. Average annual expenditures for health care jump from \$3,900 among workers ages 50 to 64 to \$5,000 for retirees ages 65 to 79. "The amount a retired household will spend on health care may fluctuate because health care costs can be variable and premiums and out-of-pocket medical costs may rise," GAO found.

**No need to save for retirement.** You can't contribute to a 401(k) or IRA if you don't have earned income. Retirees also no longer pay into Social Security. So, personal insurance and pension contributions drop from \$7,200 for workers approaching retirement to \$2,800 among people ages 65 to 79. "Mid-career households may be more concerned with contributions toward retirement resources than older households who could already be retired," GAO found.

**Entertainment costs decline slightly.** Annual entertainment costs decline by an average of only \$300 in retirement to \$2,000. Young retirees are often eager for new experiences, but entertainment costs decline as people age. Entertainment expenses are much higher for younger retirees in their late 60s (\$2,400) than retirees in their late 70s (\$1,400). "Entertainment spending could increase because retirees have more leisure time, or alternatively, it is possible that it decreases due to the prevalence of entertainment-related senior discounts," GAO says.

**Less need for expensive consumer goods.** Apparel costs decline from \$1,100 shortly before retirement to \$800 after retirement. There's obviously less of a need for expensive work clothing when you are no longer required to wear office attire. "Moreover, consumer durables purchased prior to retirement, such as furniture or household appliances, may continue working well into retirement and may not need to be replaced," according to the GAO report.

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