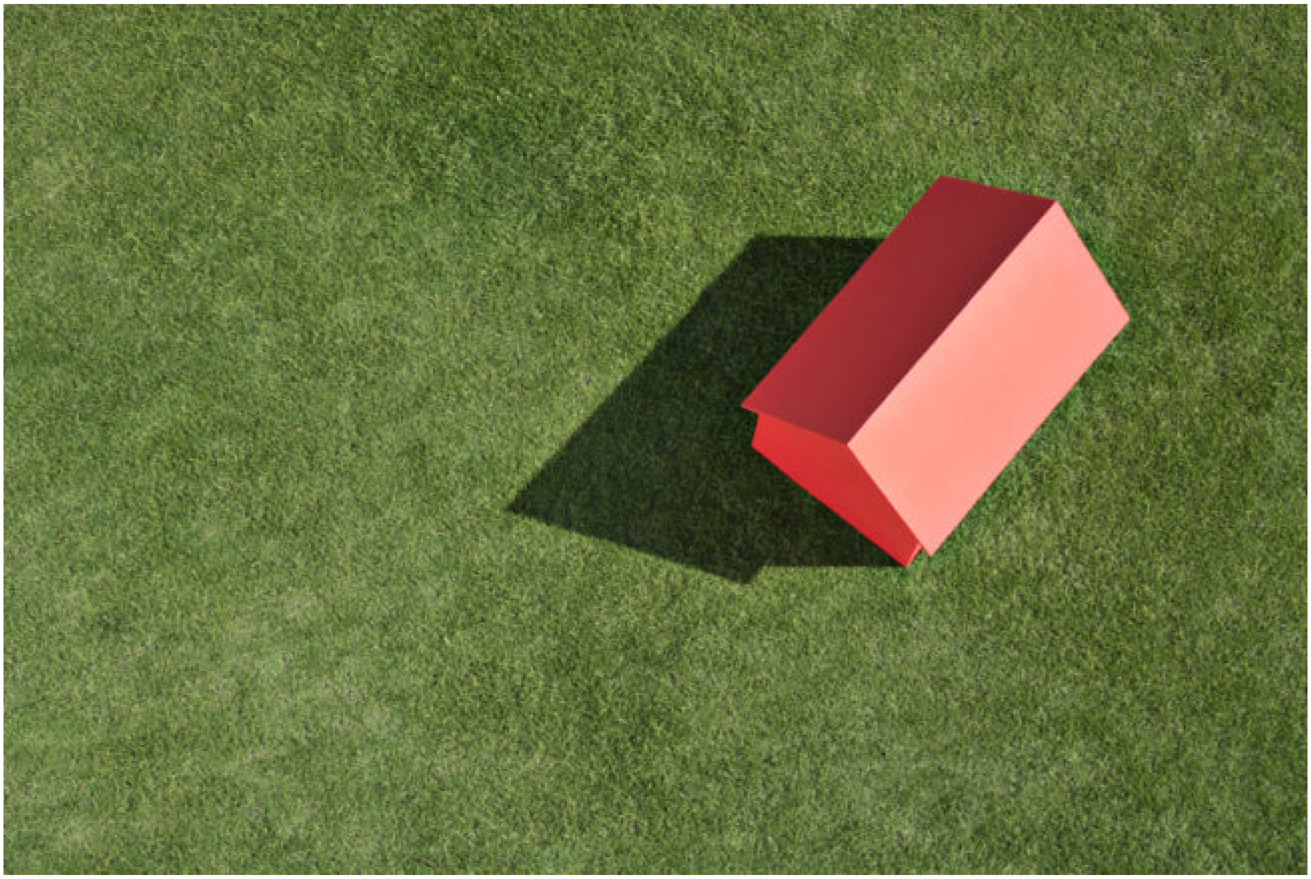
Take Control of Your 6 Biggest Retirement Expenses

You will be able to live well with less income if you minimize these costs.



Now that the stock market has shown us we cannot always rely on capital gains from our investments, or extra income from our savings, it may be time to take a closer look at the other side of the ledger: our retirement expenses. Not the little ones, like the cable TV bill or your morning latte, but the big ones that really make a difference in your budget.

It might reassure you to know that, on average, household expenses steadily decline with age, falling on average almost 20 percent between ages 65 and 75 and a total of 35 percent by age 85, according to a study by the Employee Benefit Research Institute. Nevertheless, we still have plenty of things to pay for. So here are the six major expenses – and what we can do about them – after we're no longer bringing in a paycheck.

1. Housing. This remains the largest expense in a retiree's budget, just as it was before we retired. People over age 50 spend an average of 40 to 45 percent of their household budget on housing and housing-related items such as utilities, home insurance, home furnishings, gardening and yard expenses. But this is one expense you can control, if you want to. You do not have to redecorate. You can downsize to a smaller home in a less expensive neighborhood. Some retirees move to an area of the country with a lower cost of living. And many retired homeowners have the option to take out a reverse mortgage to put more cash in their pockets.

2. Health care. This is one category of expenses that tends to increase with age. Even if you have good health insurance, you'll likely face increasing out-of-pocket expenses for medical procedures and tests, as well as both prescription and non-prescription drugs. And don't forget dental expenses, which also tend to go up as we get older. Health care costs typically swell up from 10 percent of income for those in their 50s to 20 percent for people in their 80s. One option to consider is long-term care insurance, which will cost you money in the short term, but may save you from spending down all your assets if you need extensive nursing or assisted-living care.

3. Taxes. You're no longer subject to payroll taxes once you stop working, but you may still have to pay income tax on a portion of your Social Security benefits as well as income you receive from investments and withdrawals from your IRA. In addition, some states tax Social Security and pension income. So don't forget to take taxes into account when you make withdrawals from your retirement account. And if you intend to move in retirement, it's worth researching which states offer tax breaks to retirees.

4. Transportation. You will save on commuting costs after you retire, but you still have to get around. Even with the recent lower price of gasoline, it costs over 50 cents per mile to drive your own personal vehicle when you factor in insurance, maintenance, repairs and depreciation. One way to save is to downsize from two cars to one car. In some neighborhoods with good public transportation it's even possible to go carless.

5. Travel. Many retirees say that travel is one of their top priorities, and younger retirees, especially, do not intend to skimp on their spending. But this is obviously a discretionary expense, and the one you have the most control over. You can travel as much as you want, or not at all, and you can stay at a five-star hotel, or you can stay over with the kids. It's all up to you.

6. Caring for kids. You may no longer be feeding and clothing your kids. You may even be finished paying off their college tuition bills. But there's still the wedding. And you might want to help them with a down payment for their first house or start contributing to a college fund for your grandchildren. All this is well and good if you can afford it. But remember, this is a discretionary expense for you, while paying the doctor bill and the tax bill is not. So before you decide to help your kids, first make sure you've got control over your own expenses.

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