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Cherry Tree Wealth Management

CHERRY TREE WEALTH INSIGHTS: Published by Keith Tufte, Investment Advisor at Cherry Tree Wealth Management, LLC, with insights on investing and wealth management.

STOP SAVING AFTER AGE 65

People who reach retirement age (around age 65), and have saved enough to retire face a big and often difficult mental transition. They must switch their mentality 180 degrees from being a "smart saver" to being a "smart spender." It is difficult for many people because they have typically been "smart savers" for 40 years and they've seen that saving more is the "responsible" thing to do. Once retired they worry that every dollar spent gets them one step closer to being broke. This mental switch is especially difficult in the first several years of retirement.

Many people keep saving money after age 65 due to habit, inertia, fear, and preservation instinct. They confuse thrift with virtue. After age 65 the rules of the game change. Money is a tool, not a trophy. Retirement should be liberating, not a time to get even cheaper than you were before retirement.

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The advice to "stop saving after age 65" does not apply to everyone. Each person has different financial, life, and legacy goals. Some people truly want to leave as large a legacy as they can for charity or their children. Some truly get more happiness and satisfaction from saving money than they do spending it or giving it away. And if you have not saved enough money at retirement and are at risk of running out, working and saving beyond 65 becomes a must.

We have many clients who have more than enough to retire comfortably, are financially independent, plus a large safety cushion, and do not want to leave a giant legacy for charity or their kids. The advice to "stop saving after age 65" is directed at them.

Oftentimes, people keep moving the goal posts on when to retire and start spending the money they have accumulated. The "number" they need to retire always goes up another 15% each time they reach the previous retirement goal. Stop. Hit your financial independence number, celebrate, and start spending smart. Take a victory lap!

After 65 you should be reaping, not sowing. You've earned the right to use the assets you have been building for 40 years. Spend your money to buy time, to increase comfort, to get help/care, to ease pain, to increase the quality of your life, to reduce stress, on experiences/travel, and maybe to have some fun while you can still enjoy it. For those who are uncomfortable spending more on themselves part of your annual retirement spending "budget" can go towards gifts to charities and/or your family.

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What if you spend the last healthy years of your life saving more money because you are imagining problems (market crash, what if I live to 100, health issues) that may never happen? Your children will likely spend your/their inheritance on all the things you are denying for yourself. If you don't use your money someone else will, and they won't follow your frugal rules. Are you trying to maximize 1) your portfolio size at death or 2) your happiness, comfort, and enjoyment of the rest of your life?

After age 65, time is scarcer than money. If you are still saving after age 65 you are preserving the wrong asset. What specifically are you saving for? The biggest risk after age 65 isn't running out of money but running out of life before you can use the money. At age 65 your most important financial skill is spending your money and your time wisely, not saving more.

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We don't want our clients to spend above their means during retirement, because they may run out of money. We also don't want our retired clients to live well below their means, due to fear or not being educated on how much they can easily afford to spend/gift each year.

Many of our clients have been thrifty their entire lives, which is one reason they are financially independent at retirement age. These same people often have a hard time spending/gifting in-line with their means in retirement. They often want to try to live on just their social security and portfolio income (interest and dividends). They rarely want to touch the principal.

There are several tools we use to help clients like this have the confidence to spend/gift larger amounts each year. First, we have a long-term financial plan that shows them how their financial life will work out to age 90 with different levels of spending/gifting each year. The financial plan shows them their annual spending/gifting "budget" as well as the size of their retirement portfolio at age 90. Second, we have our "retirement paycheck" where we set up a link from their investment accounts to their bank account and we send them cash every month that is in line with their retirement budget.

Save and spend the rest of your life wisely.

Cherry Tree Wealth Management, LLC (CTW) provides unique wealth management services for a select group of client families to help give them peace of mind. Author Keith Tufte has more than 30 years of successful investment management experience. Please FORWARD this e-mail to friends/relatives/business associates that you think may have an interest. Please see our website at http://www.cherrytree.com.

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