How to budget in retirement: 7 steps to maintaining your finances on a fixed income

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How to budget after retirement (PeopleImages via Getty Images)

Budgets aren’t static documents, set in stone and perfect out the gate. Rather, when something in your life changes, your budget adapts to those changes. And retirement is among the biggest changes for you and your finances.

The Bureau of Labor Statistics reports average expenses for those ages 65 and older at $52,141 — that's $4,345 a month. Compare that with an average income of $55,335 for that same age bracket, and it's clear how important a budget is to making sure you don't outlive your money.

Whether you're planning, new to or enjoying retirement, here are seven simple steps to creating a budget that fits the money you bring in and how you spend it — and allows for flexibility for what life throws your way.

1. Calculate your total income

When you're retired, your income can come in from many different places that include 401(k)s, pensions, IRAs, Social Security and, sometimes, a paycheck. Organizing all of your monthly income streams lets you know how much you can rely on and can help you craft your expenses.

You can do this with paper and a pencil or, better yet, in a digital spreadsheet or app that you can share with your spouse or partner to share the responsibility. Today's best budgeting apps offer a modern way to manage your money with robust features that you can use to personalize your budget, monitor investments and more from your computer, smartphone or tablet — often at no or a low cost that can fit your fixed income.

2. Detail your essential needs

Needs vary by person, but your necessary expenses are those for housing, health care and everyday living, including:

- Monthly rent or mortgage payment
- Medical costs, premiums and prescriptions

- Electricity, gas, water and other utility bills
- Groceries, dining and other food expenses
- Transportation, including gas and car maintenance

Remember, budgets are living, breathing documents. So if you are budgeting for, say, a car, make sure you include any applicable car payments, auto insurance, gas and regular maintenance. If you use public transportation, calculate those costs.

Your needs should include everything that's essential for living each month, whatever that looks like for you and your family.

3. Add in your discretionary wants

Chances are that you'll have more free time in retirement. You might use this time to travel to places on your bucket list, volunteer in your community, perfect a hobby or something else. No matter what you like to do, make sure your budget reflects it.

You'll want to set aside enough money for discretionary costs that you can control, like those for your various retirement projects, donations to charities, education expenses or support for extended family.

Because your discretionary spending can go up or down depending on the month, make sure your budget reflects those swings so they don't surprise you or your budget.

4. Leave some wiggle room

Even though you're on a fixed income, you should leave some space for the unexpected. Unplanned costs include medical emergencies or sudden car repairs but also life events like weddings or graduations, as well as last-minute travel simply to be with your loved ones.

Keep these funds in a money market account, high-yield savings account or another easily accessible account that earns you strong yields while allowing the flexibility to access your money when you need it.

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5. Watch your debt

You might not have as much debt in retirement, but it doesn't disappear for everyone. Think about ongoing debts you manage, whether it's credit cards, outstanding bills or personal loans.

Now that you're on a fixed income, you'll want to pay close attention to how much debt you're carrying from month to month. For example, credit cards can be a convenient way to pay for your expenses while earning back rewards. But with the average card APR at nearly 23%, it's best to prioritize paying off your credit card statement each month to avoid hefty interest charges of 20% or higher.

6. Review and adjust your budget regularly

Rest assured: Life doesn't stop because you've retired. And neither should your financial planning. Make a plan to check into your budget every month, every quarter or at least every year to make sure it aligns with how your money is coming in and going out.

You'll need to regularly adjust your budget to account for life changes as you age. For instance, you might fully pay off a car loan. You could inherit assets from family or find yourself collecting rental income on properties you no longer live in.

In all cases, you'll want to account for the financial updates those changes bring, recategorize your budget's spending and make some money moves.

Inflation too can require regular adjustments to your budget, especially costs related to housing and food.

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7. Don't hesitate to ask for help

You don't have to continue your financial planning on your own. It can become a lot to do it yourself or even with a partner, especially with changing tax laws, government programs and cost-of-living updates that can affect your Social Security and other retirement income.

Asking for professional help can assure you that your money is working as hard for you as it can, even during retirement. It also means you're doing what you can so you don't outlive your money.

Different professionals specialize in different aspects of retirement, whether it's a certified financial planner, a tax advisor, an estate attorney or another retirement expert. When researching professionals, start by asking trusted friends and family for recommendations. Ask for an initial consultation to learn whether it's somebody you can work with in the long term, noting their credentials, what you can expect and how they're compensated.

The U.S. Securities and Exchange Commission offers resources for checking the background of your investment professional before you hand over any money, while Finra's BrokerCheck helps you confirm registration and more.

Dig deeper: How to invest your money after retirement — and make it last through your golden years

How to plan for life's changes in retirement

Moving to a fixed income in retirement can be challenging, especially if you haven't had to live according to a budget before.

When budgeting for life after retirement, think ahead to major changes that can affect your finances — both positively and not so positively — including:

- Downsizing to a smaller or cheaper home
- Moving in with family members
- Caring for other relatives or loved ones
- Supporting adult children
- Paying for a loved one's college expenses

Retirement can be both financially daunting or freeing, depending on what comes your way. By understanding your income streams, keeping an eye on your expenses and building in room to cushion financial surprises, you're in a better position to avoid running out of the money you so carefully saved while employed.

Dig deeper: Top 7 home renovations to increase your property's value — and quality of life as you age

Frequently asked questions: Budgeting after retirement

Learn more about the budgeting rules of thumb for those new to retirement or planning for life's changes.

What is a good budget for a retired person?

A retirement budget won't be the same for everyone. That's because each retiree will have a different income, expenses and needs. Experts advise shooting for between 70% and 80% of your pre-retirement income as a good budget. Look into popular budgeting strategies that might align with your lifestyle and values.

What is the biggest expense for most retirees?

Housing is the most expensive part of retirement for most retirees. While many folks might have paid off their homes before retirement, more than 11 million Americans ages 65 and older spend more than 30% of their household income on housing costs, according to the Joint Center for Housing Studies of Harvard University.

Can I retire on $500,000 plus Social Security?

It's possible. Most folks should be able to retire on $500,000 supplemented by Social Security, according to calculations from SmartAsset. But remember: Everyone's expenses are different. For instance, if you need to plan for long-term healthcare, like a home health aide or assisted living facility, you might have more expenses compared to someone who doesn't have those needs.

Sources

- Credit card interest rate margins at all-time high, Consumer Financial Protection Bureau. Accessed July 7, 2024.
- Housing America's Older Adults [PDF], Joint Center for Housing Studies of Harvard University. Accessed July 7, 2024.

About the writer

Dori Zinn is a personal finance journalist with more than a decade of experience covering credit, debt, investing, real estate, student loans, college affordability and personal loans. Her work has been featured in the New York Times, the Wall Street Journal, Yahoo, Forbes and CBS News, among other top publications. She loves helping people learn about money.

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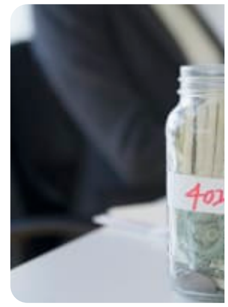

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