

The Four Financial Phases of Retirement

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Retirement....what does it mean to you? Are you prepared to enjoy this part of life? Being prepared for retirement means actively planning ahead for those years. See what to expect with the four financial phases of retirement.

To begin planning retirement, assume you will have at least 50-60 hours extra each week. Ask in detail how you will use these hours. For example, if you say you want to volunteer, where will you do it and what will you do? If you don't volunteer now or don't volunteer where you would like to during retirement, what can you do now to make your dream of volunteering after retirement your reality? Try out activities you've always wanted to do before you retire.

In his classic retirement planning book, *The Prosperous Retirement: Guide to the New Reality*, Michael K. Stein defines a prosperous retirement as the time when "the focus of daily activity shifts from economic productivity to ... chasing [your] dreams." A prosperous retirement is not about money; it is about being able to maintain the life you decide you want, as simple or as extravagant as that might be.

One way to plan for retirement is to consider the different phases or stages people's lives tend to go through after retirement. While Stein includes three such phases in his book, it is useful to add a Transition Phase at the beginning. The four phases of retirement, then, are Transition, Active, Passive, and Final.

Transition Phase

Transition begins with the first day of retirement and continues for one to three years as you change your identity from employed person to community volunteer, consultant, active grandparent, business owner, or whatever your new identity will be. Take time to celebrate by doing something special to mark the transition into the rest of life. Travel someplace you've always wanted to see, fix up the house, do a special community project, and have a once-in-a-lifetime reunion of family and friends and family. Also think about the potential challenges of this time and make plans. During transition

time you're getting used to your new life – and you begin to create your new identity.

Active Phase

The Active Phase can be one of the most active and enjoyable phases of life as you pursue athletic, philanthropic, intellectual, spiritual, entrepreneurial, and hobby interests. Stein describes this phase as somewhat like a second childhood where dreams and life come together.

Retirees often say they are busier now than ever. Plan for retirement by asking the following questions:

- What are you going to do in retirement?
- What have you always wanted to do?
- What do you want to try?
- How will you fill those hours you now use in earning an income?
- Do you want to work part time, either getting paid or as a volunteer?
- What will you do with your free time?
- Who will you spend your time with?
- What are you doing now to develop each potential activity?
- Where will you live?
- If you move, how will the move affect your expenses, including taxes?
- What medical risks are you likely to face?
- What medical conditions are you likely to face?
- Who else are you financially responsible for or do you anticipate being financially responsible for in the future? Do you now or will you likely provide financial support for a child, parent, or other relative?

If you are part of a couple, also consider these questions:

- How does your vision of the Active Phase of retirement mesh with your partner's? Do you know what his/her vision looks like?

- What will you do together?
- What will you do separately?
- What will you do and where will you live if you become single, either through death or divorce?

If you are single, consider the following:

- Do you pool your finances with someone else now?
- Would you consider doing so in the future? For example, two sisters who are presently married have decided that when both of them are widowed, they will live together.

Stein's First Rule of Retirement notes that the Active Phase retirement budget tends to equal the pre-retirement budget, "if the retiree can afford it." Contrary to what is often considered common sense, new retirees commonly will not be spending 70 percent or 80 percent or even 90 percent of their pre-retirement budget. The day after retirement, they probably will continue to spend the same amount as before they retired.

The Active Phase can last until at least age 75 for many people. Remember, active retirement is when you go a lot, do a lot of things, and are truly involved externally with life.

Passive Phase

Eventually people may decide they've had enough of going and doing. Perhaps health is not as good as it was during the Active Phase. People may be ready to eliminate all but just a few of their outside activities so they become more "home bodies." They also may become more reflective about life. While health may be a concern and limit outside involvement, becoming less social often is a natural part of this life phase. It does not mean one becomes a hermit. It does mean people may become more selective about what they do and when, where, and how they do it.

This may also be the time to seriously pursue intellectual discovery. What have you always wondered about? Perhaps the answer to that question links with this question: what do you want to leave as a legacy? That can be as simple as doing genealogical research for your family or as complex as putting your affairs in order to leave a major gift to your community.

A common occurrence in the Passive Phase is to start giving away possessions as you prepare to move to smaller living quarters. If it is important to you that certain things go to certain people, now is the time to either give them away or put in writing who is to get what upon your death.

But being more passive doesn't mean you withdraw from all outside activity. You just become more selective about what you do. If you've always traveled, for example, you may limit the number and scope of your trips. Or you may do different forms of traveling. For example, if you've spent vacations traveling to many parts of the world, your vacations may become less active and closer to home.

In the past, this phase has lasted 10 to 15 years for most people. How long it lasts for you depends on: (1) the age when you retired; (2) your health; and (3) your life expectancy. If you retire later or your health is fair or poor rather than good or excellent or your life expectancy is shorter, you will probably spend fewer years in the Passive Phase.

While spending typically declines 20 percent to 30 percent during this phase, that decline is masked by inflation. So the actual money spent will likely increase during this time.

As you think about the Passive Phase, what activities from the Active Phase will you continue to do? What other activities might you add? Will you stay in your home? If you move, where will you move? What services or assistance might you need in the later years of this phase?

Final Phase

The beginning of the Final Phase is defined by the need for medical services and perhaps nursing home care and typically lasts three years or less, although it can stretch longer for some people. Expenses usually increase, often dramatically so planning for the costs of this phase is crucial.

As you think about the Final Phase, where do you hope to live? Who will help you when you need assistance? What activities do you hope to still be doing? Do you have a will, living will, health care power of attorney, and durable power of attorney now? Have you thought about your funeral or memorial service? Does family or another responsible person know your wishes?

Everyone wants to think they will live a long life but we never know when it will end. Doing the necessary planning and getting affairs in order gives peace of mind at any time during life because you know you've done all you could to help those you leave behind.

Additional Considerations for the Four Phases of Retirement

While physical and mental health impacts how long someone stays in the Active Phase, personality also plays a part. For example, introverts may have a shorter Active Phase because they already live a more reflective lifestyle and may move into the Passive Phase easier and perhaps sooner than their extroverted friends or spouses. Couples will need to negotiate any shared activities, especially if one person is an introvert and the other an extrovert.

For couples also, the age of each person may impact their progress through the Four Phases. When the age difference is more than a couple of years, one person may move into the next phase while the other person remains in the previous phase. Again, shared activities may need to be negotiated. Respecting each other's differences and continuing to encourage and support each other to live separate lives as well as together allows each person to develop fully. Take the example of a retired couple, Ellen and Pat. When Pat retired from the railroad, he was happy to stay at home and putter around the farm. But Ellen, who was 10 years younger, wanted to travel. So Pat

said “go ahead,” and she and her sister traveled to Alaska, Europe, South America, and all over the United States. Pat was more than happy to pay the bills because he could stay at home and do what he wanted and didn’t have to go on all of those trips.

Tips for Retirement Planning

Make a plan for what you’re going to do and where you’re going to live after retirement, as well as how much money you’re going to live on.

Try out your plan before you retire. During the year or so before you plan to retire, live on your anticipated retirement budget.

Retirement planning, both before you retire and after, is not a passive process, something that you let someone else do for you. Get involved with your retirement, both now and for the rest of your life, and be involved with both the non-financial as well as the financial aspects.

Never borrow from the funds you have invested for retirement. Not only will you pay extra because of additional taxes in most cases, more importantly, once you spend any of your retirement money, it no longer can grow and earn additional funds to support you in retirement.

Everyone, but especially if you are single, should carefully consider who will make decisions for you, financial and non-financial, once you can no longer do so yourself. Have the necessary legal documents to allow the person you choose to act in your behalf.

A Final Thought

In noting that more retirements fail for non-financial reasons than because of inadequate finances, Stein indicates that one’s attitude is extremely important. In his book, *The Prosperous Retirement: Guide to the New Reality*, he says: “If you are not looking for opportunities, you will not see them....Of course, there will be challenges. It would not be fun if there were no challenges, but we must stay resolved to take a positive view, and be determined to stay connected and relevant. The world really can be a better place because we are here and determined to make it a better place for ourselves and everyone around us.”

Resources

- Anthony, M. (2006). *The New Retirementality: Planning Your Life and Living Your Dreams...At Any Age You Want*, 2nd ed. Chicago: Kaplan Publishing Inc.
- Merriman, P. (2005). *Live It Up Without Outliving Your Money!* Hoboken NJ: John Wiley & Sons Inc.
- Stein, M. K. (1998). *The Prosperous Retirement: Guide to the New Reality*. Boulder CO: Emstco, LLC.

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