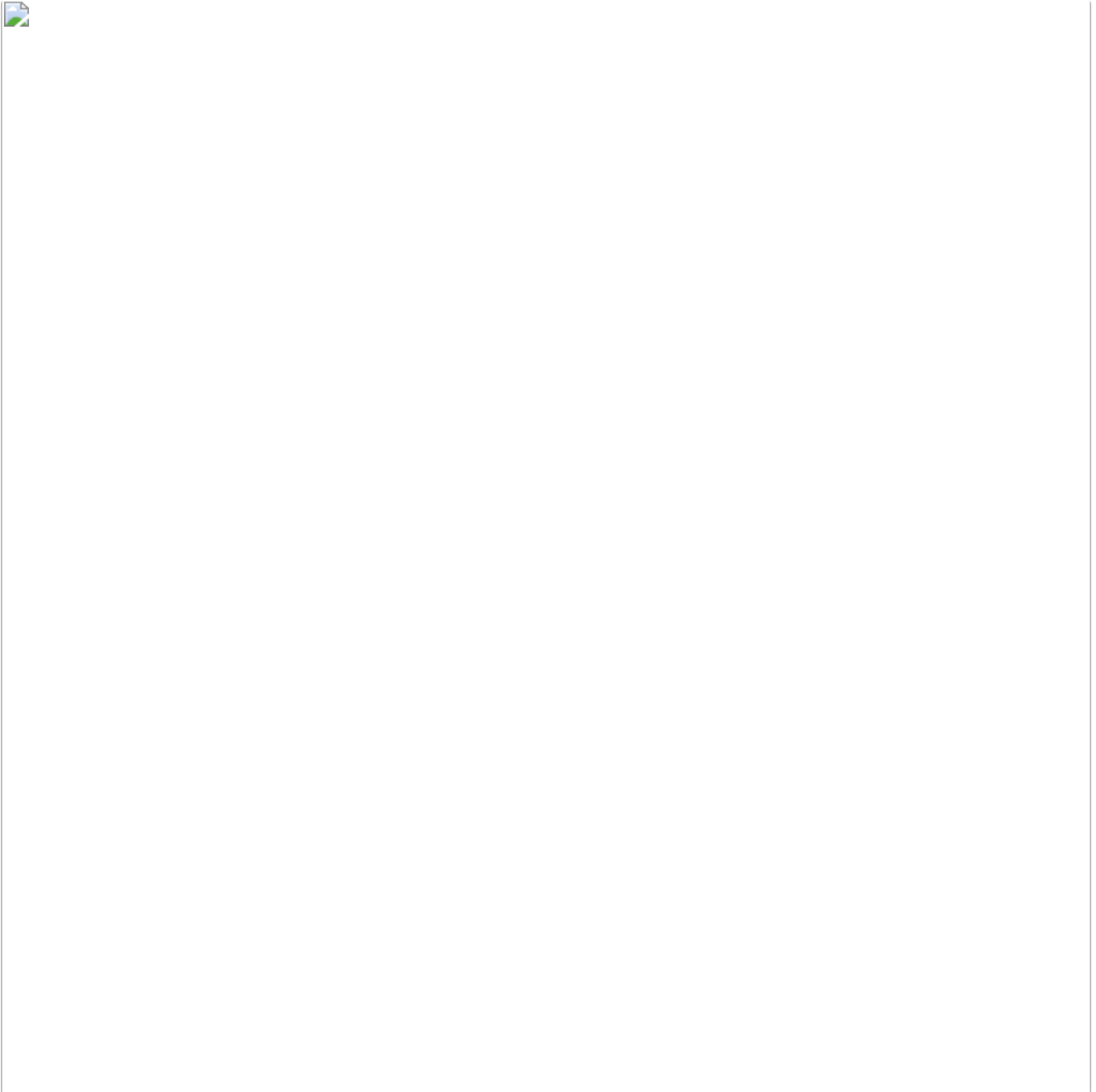


The Smartest Retirement Planning Advice I've Ever Read

 fool.com/retirement/general/2014/11/28/the-smartest-retirement-planning-advice-ive-ever-r.aspx

Brian Stoffel

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Retirement planning can often make you feel like this. Source: Wikimedia Commons user LauraMG.

Retirement planning can be a dizzying, exhausting, mind-numbing exercise.

We try to predict what kind of income we'll need decades from now -- an [inexact](#) science to say the least. In the process, we unconsciously accept that our only purpose between now and retirement is to make as much money as possible. All along, the retirement planning process can increasingly be driven by fear instead of hope.

And even if you get your income assumptions right, and even if you make as much money as you possibly can, that's no guarantee that you'll actually [enjoy](#) your retirement. That's because having enough money to get by in retirement doesn't *add* something good to your Golden Years; it simply *removes* the potential stress of financial shortfalls.

That's why I thought a recent [article](#) from AssetBuilder hit the nail on the head: "Learning what makes you feel happy and content qualifies as a major piece of our retirement planning."

I would even take that a step further and say that this is a major piece of *life planning* that ultimately makes retirement planning much easier.

The important role of finances in retirement planning

We'll get back to that advice in just a moment. But first, let's focus on finances. Like I said, while it won't really add happiness, having sound finances allows you to focus on what's really important in your life.

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One of the premises of the AssetBuilder article was that we have our retirement planning assumptions all screwed up. For instance, the standard line in the retirement planning community is that we should aim to replace 85% of our *income* in retirement.

That alone, I believe, is terribly misguided. It assumes that you are spending 100% of your paycheck every month.

But if you've figured out where your "[Enough](#)" level is, and you know what you need to make you [feel happy](#), then it's not your income, but rather your *spending* that you need to replace.

And even then, we are often terrible at predicting what we'll spend in retirement. We're told to take 4% out of our retirement nest egg in year one, and then adjust that number for inflation moving forward. But some evidence points to the fact that spending drops significantly once people retire -

- and that this reduction is mostly *voluntary*.

This idea was first widely circulated by the work of financial planner Ty Bernicke back in 2005. Digging into the [2013 Consumer Expenditure Survey](#), compiled by the Bureau of Labor Statistics, here's what I found, using the same basic assumptions Bernicke did:

Now, there are a couple of important caveats to this data. First, these are all mean (not median) figures, which means that outliers can skew the results. Furthermore, the 75-plus demographic also pulls in the least amount of money -- which is to be expected, as these people have largely exited the workforce.

That being said, given this information and anecdotal evidence from our own lives, these spending trends make sense.

Two-thirds of those aged 75 and older are living in homes that they have paid off in full, which greatly reduces expenses. If you aren't driving to work every day, you won't spend as much on transportation.

And other sources have found similar decreases. The Employee Retirement Benefits Institute found that high earners reduced spending by 18% as they aged, while low earners reduced spending by 16%. When you are using the 4% [rule](#) to guide withdrawals from your nest egg, such differences are huge. As a group, Americans aged 75 and older spend \$12,375 less per year on average than the 65- to 74-year-old group.

The bottom line is that our needs might actually be lower than we think.

But this misses the even bigger point

As I said, there's something larger at play here. "Learning what makes you feel happy and content" is more than just sound retirement planning advice; it's sound life advice. And through experience, many have found that starting from the ground up -- that is, focusing on what makes you happy and then seeing what kind of budget that creates -- can actually make retirement planning far easier.

Recently, popular blogger Mr. Money Mustache -- who retired at the age of 30 -- wrote about this very thing in a [post](#) that I think should be required reading.

Learning to separate "happiness" from "spending money" is the quickest and most reliable way to a better life. The side-effect of this is that your life will become much less expensive and you will therefore become much wealthier very quickly. But it's not about the money, and as long as you think it is, you're still [screwed]. ... None of this is done because this is a cheap way to live, but because it's a rich and efficient way to get in touch with all the things that make a human happy.

The sooner you get in touch with what makes you happy, the better -- for your retirement planning and your life.

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