

Let's Get Real About Costs

By Tammy Flanagan

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There's a common belief that retirees can live on a lot less money than active employees. The truth, unfortunately, is more complicated.

The good news about retirement is that some of the deductions from your earned income go away. You won't be saving for retirement, so you won't have funds withheld from your paycheck for Thrift Savings Plan investments (or other retirement savings plans). In addition, you will no longer contribute the required retirement contributions to either the Civil Service Retirement System (7 percent of salary for most feds) or the Federal Employees Retirement System (0.8 percent for most feds). Also, you won't have to pay the wage taxes for Social Security (6.2 percent up to \$118,500 in 2015) and Medicare (1.45 percent on all wages and an additional 0.9 percent for those with wages greater than \$200,000).

But retirees do pay other taxes. Most retirement benefits, including CSRS and FERS benefits, are taxable on the federal level. So are most withdrawals from your retirement savings. (Roth IRA and Roth TSP savings can be withdrawn tax-free in most cases.) Some people don't pay taxes on Social Security retirement benefits, but generally only if they have little other income besides Social Security. On the state level, there are some tax breaks for retirees and seniors. Here's a [roundup on tax issues](#) I wrote earlier this year.

So, while some deductions will go away or be reduced in retirement, don't get too excited. Because certain expenses won't go away.

You'll continue to eat, get dressed and drive your car. The cost of food, clothing and transportation may be different after you retire, but some expenses will still be there. Your housing costs may decrease if you've been able to pay off your mortgage, or have found a less expensive place to live. But you'll continue to pay property taxes (unless you rent) and incur home maintenance expenses. You may not need to buy business attire any more, but you still need to have clothes on your back -- and you may be buying more resort wear.

Many retirees find that they have more time to travel and go shopping. Think about when you spend more money now: during the week, when you're at work, or on the weekends?

If you have children who are now adults, you may no longer need to clothe, feed, or house them. But that doesn't necessarily mean all of the costs associated with having children go away. You may find yourself helping with their expenses after they leave your home. And one day grandchildren may come along. You may decide you want to help with their savings for college, pay for family vacations together, or just generally do what grandparents are known for: spoiling their grandchildren. These costs must be factored into retirement planning.

Also, some of your expenses may end up being higher than you planned for. In light of the recent news about [premiums in the Federal Long-Term Care Insurance Program](#) going up for new enrollees, and the warning that some federal retirees may see their [Medicare Part B premiums increase](#) in 2016, we've been reminded that things can change. I hate to say it, but remember that the next Federal Employees Health Benefits Program open season is only four months away. I have a feeling premiums are probably not going down for 2016 unless you decide to change your health plan to a less expensive option.

Some federal retirees will transition to becoming caregivers for others or receiving care themselves. This is another area

where in the retirement planning process, employees sometimes underestimate how much the cost of such care can increase.

Next week, we'll take a deeper look at health care expenses in retirement. In the meantime, be sure to be realistic as you plan for retirement about how certain costs won't go away, and could even go up.

The National Institute of Transition Planning is hosting a free webinar next Thursday, Aug. 13, from 2 to 3 p.m. ET on Financial Planning Basics. Topics include Social Security, the Thrift Savings Plan, other investment options, risk analysis and diversity of investments. [Click here for more information and to register.](#)

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<http://www.govexec.com/pay-benefits/retirement-planning/2015/08/lets-get-real-about-costs/118936/>