5 smart money moves for your first 5 years of retirement

Published: May 20, 2022 at 2:10 p.m. ET
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When you dream of retirement, you figure you'll finally enjoy worry-free living. But the first few years can prove surprisingly tense.

A big cash outlay or costly divorce can upend your best-laid plans. Getting ensnared in a scam or buying the wrong insurance can also sabotage the first phase of your retirement.

There’s a natural urge to live it up once you retire. Why wait? You hear stories of overly frugal types who are reluctant to spend through their 60s and 70s, only to find themselves beset by illness or injury when they’re ready to tap their savings.

“The trouble with retirement is this: the less money you can spend in the early years, the better off you will be financially in the later years, while capacity to do fun things is the inverse,” said Matt Paronish, an Indianapolis-based adviser.
To minimize your risk, make wise money decisions during the first five years of retirement. Here are five examples of smart moves that can preserve your wealth (and sanity):

1. **Beware of large, looming expenses.** While it’s sometimes hard to predict when you will need a new car or new roof, think ahead and identify what five- or even six-figure expenditures loom in the near future. Ideally, avoid these giant costs right after you retire.

“You want to preserve cash early in retirement,” said James Regan, a Phoenix-based financial adviser. This gives your nest egg more room to grow in a bull market—and a chance to recover from a bear market.

Advance planning and research can eliminate nasty surprises. If you intend to sell your home and downsize, for example, ask a local real estate agent about any unforeseen costs that sellers incur in your area.

In Florida, home sellers may think they can name their price as buyers surge into the state. But those buyers need to obtain homeowner insurance, and most carriers will not issue an insurance policy in Florida if the roof is more than 15 years old. As a result, sellers may need to pay for a new roof before the property can change hands.

2. **Delay grand gestures.** By all means, celebrate your retirement by treating yourself to a few indulgences. Take a trip, throw a party, add an extra streaming service or three.

Just don’t go hog-wild.

In the first five years of retirement, people tend to blow big wads of cash on what brings them pleasure, Regan says. While it’s true these are the years you’re most active and apt to have the most fun, there are ways to live large without depleting your savings too soon.

Regan cautions freshly minted retirees against buying a second home. Even if they set aside a down payment and think they can afford the upkeep, waiting a few years can make more sense.

“My advice is to budget for a second property but don’t buy it right away,” he said. “It’s better to [rent] for a month rather than commit to a large purchase where you’ll have real estate taxes, utilities and maintenance.”

3. **Review your life insurance.** Retirees who bought a life insurance policy decades ago may get so accustomed to paying premiums every month, quarter or year that they no longer give it a second thought. Maybe they should.

“It’s one of those set-it-and-forget-it bills that people pay,” said Matthew Schwartz, a Minneapolis-based certified financial planner. “You might pay automatically via your checking account.”

Someone who bought term life insurance years ago to last until their children turned 18 may continue to pay for it through annual renewable term coverage, Schwartz adds. Yet retirees may not need it anymore.

4. **Rethink divorce**. In the first five years of retirement, people often reflect on their life and reset their priorities going forward. Some decide to end longstanding relationships and start afresh.

From a financial perspective, divorce—and the costs associated with it—can create a major problem.

“Depending on the settlement, divorces can really hurt a retirement plan,” Paronish said.

Divorce can impact taxes adversely and not produce much savings in everyday expenses. That’s because agreeing to fork over half your retirement assets to your former spouse doesn’t mean you simply live on half of what you previously spent. The total expenses for a couple aren’t that much more than the expenses for just one.

5. **Avoid scams.** The steps you take to steer clear of scams in retirement are no different than the preventive measures you take at every stage of life. But as you age, the scammers are more likely to target you.

Cybercrime cost Americans age 50 and up almost $3 billion in 2021, according to the FBI. So once you retire, fight off fraud with more vigilance than ever.

Don’t divulge your personal data to companies unless absolutely necessary. Every time you open an account with a different bank, for instance, you provide your data to another business that’s at risk of getting hacked.