# The 3 States of Retirement You Must Plan For

By Donna Fuscaldo / Published July 25, 2014 / FOXBusiness

Retirement planning doesn't stop once you leave the workforce.

Just like there are different investment stages during your working life, there are phases of retirement. From the on-the-go days of early retirement to the slower pace of old age, your needs and requirements are going to fluctuate.

According to Bob Phillips, managing principal of Spectrum Management Group, many people underestimate certain spending categories in retirement, mainly health care, travel and hobbies and taxes.

With that in mind, here's a look at the different stages of retirement and how you can create the best financial plan for them:

**The Go Go Years: 65- 75**

Many people pick up a new hobby or set out to the see the world when they first enter retirement and aren't constrained by a 9-5 work scheduled. But this new freedom can be costly.

"Statistics say you need 60% of your cost of living before you retire after you retire, but that's not been my experience," says Ken Moraif, founder and senior advisor at Money Matters. "If anything, the cost of living tends to go up."

He says the increase in the cost of living typically lasts five to 10 years. To plan for the added expense, Moraif suggests assuming that the cost of living will go up by 4% per year during the early retirement years.

Hopefully health-care expenses won't be too burdensome during the early retirement years, but that doesn't mean you shouldn't be planning for it.

"In Kansas City if you need care and stay at home, that costs $41,000 a year," says Scott Dougan, principal of Global Plains Advisory Group. "Going to a nursing facility will cost around $62,000 a year--and that's in the Midwest." One way to protect against those costs is to take out long term care insurance, which experts say you want to do in your late 50s or early 60s.

**The Kicking Back Years: 75 to 85**

During the second phase of retirement, many are still pursuing their hobbies and traveling but at a slower pace, which means steady costs.

Ideally in this stage, health-care costs have been planned for and people are coasting through their golden years.  A way to make that happen, Moraif says to assume your cost of living will be higher than before retirement, but not as high as in the first phase of retirement.

"The cost of living typically plateaus in that period," says Moraif. He assumes the cost of living will go up 3% per year during the second phase to ensure his clients have enough money to live.  "People confuse cost of living with inflation and they are not the same. If you look at inflation, it includes expenses retired people don't have like school, diapers and large grocery bills."

**Slow Down Years: 85-plus**

By the time you hit 85, chances are you've sowed your wild retirement oats and are spending more time at home. For many, the cost of living drops dramatically in this phase.

Dougan says now is the time to start thinking about heirs. "If it's important to you to transition funds to your heirs, you want to figure out who to distribute those funds most efficiently and effectively," he says adding that it's important to be aware of the tax consequences of any moves.

If heirs aren't an issue, your cost of living in this final stage of retirement should decrease a lot if you don't need full-time health care.  "Once you get in your 80s you don't need as much," says Moraif. Still he factors in a cost of living increase of 2% a year during this stage. "You want to overestimate your expenses and under estimate your income to build a sound financial plan."