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Your Money: Three ways to budget for fun in retirement

NEW YORK | BY CHRIS TAYLOR

The writer is a Reuters contributor. The opinions expressed are his own.

The way retirement is supposed to go is that you scrimp and save for decades while you are working, and then you get to enjoy years of luxurious, worry-free leisure.

But here is a little tip: Fun does not just happen. You have to budget for it.

According to new data from Merrill Lynch and Age Wave, 77 percent of retirees have hardly planned at all for their first five years of leisure activities. Two-thirds of those surveyed for the "Leisure in Retirement: Beyond the Bucket List" report have not budgeted for any travel. And 45 percent have not even guessed at how much leisure activities might cost throughout their golden years.

This is not just a minor bookkeeping oversight. If you don't factor in the fun, it could blow a meteor-sized crater in any financial plan.

"These costs are significant, and you absolutely have to factor them in," says Cyndi Hutchins, director of financial gerontology for Bank of America Merrill Lynch. "People just can't seem to wrap their heads around what their future lives are going to look like."

Financial planner Douglas Kobak, of Conshohocken, Pennsylvania, recently met a client with grand plans of retiring in two years, buying a winter home in Florida and traveling the world. But when Kobak sat down with him and actually calculated the costs of the dream trip, the client had to rethink the whole plan -- as well as his projected retirement date.

"It wasn't what he wanted to hear," Kobak said.

Another new survey confirms that we have forgotten about fun in our golden years. If given another 30 years of life, 56 percent of respondents vowed to "travel extensively," and 35 percent dreamed of "living in a different place," according to the study by insurer Allianz Life, in conjunction with the Stanford Center on Longevity.

But because our lives have taken different paths, almost a third of us are filled with regret about how things turned out. Talk about depressing.

Here are a few pointers from financial planners about how to budget for fun - and avoid any nasty accounting surprises before it is too late.

1. Forget the 80 percent rule

Many retirees abide by the rule of thumb that they will need to live on 80 percent of their pre-retirement income. Scrap that, suggests Kobak.

You will be likely ticking items off your "bucket list" within the first few years of retirement. Tour Peru's Machu Picchu? Volunteer? Take gourmet cooking classes?

"Most retirees need an income of at least what they were earning just prior to retirement, to maintain their lifestyle and do leisure activities as well," says Kobak.

The flip side is that leisure spending for late-stage retirement will be correspondingly less. At 90 or 95, you will not be zipping around the globe quite as much, and likely spending more on healthcare costs instead.

2. Get creative

Just because you want to maximize your leisure time, it does not mean you have to maximize the amount you spend on it. Since you no longer have money coming in, get inspired to make the most of the money that is going out.

"One client and his wife loved golf, so they would volunteer for the PGA tour," said Marguerita Cheng, a financial planner in Potomac, Maryland. "They got to play on some of the world's best courses for free. Another client always wanted to visit Africa, so he went on several medical missions."

3. Find out your partner's idea of fun

It is astonishing that this even needs to be said. But apparently it does, because two-thirds of those with a partner have not discussed how much leisure time to spend together in retirement, or how much money to devote to it, according to the Merrill Lynch data.

In other words, spouses are living under the same roof, and yet have completely different notions of what retirement is going to look like. One might have dreams of a farmhouse in Tuscany, while another might want nothing more than to stay stateside to look after the grandkids.

"If you are not even talking about what you want to do, then you can't begin to put any numbers on it," says Merrill Lynch's Hutchins.

(Editing by Beth Pinsker and Dan Grebler)

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