

A step by step guide to obtaining a long  
and prosperous retirement

## Lesson 7 – The Phases of Retirement

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## Introduction

This document is part of the training material written to assist Kiwi's in their 50's or 60's that are looking at retirement but have no idea what to do, what is needed, and how or where to get help. Or those that already have some ideas of how to survive retirement, are looking at alternatives, or just checking they are on the right path. They might even be looking on behalf of their 'elderly' parents, to ensure they are considering all options available to them.

This course provides a simple comprehensive step by step process to create your own retirement plan. It includes a summary guide, road map, lessons and discussion topics to help you prepare for your retirement. It will help you answer questions such as:

- *How much money do I need in retirement?*
- *How much money will I receive from Government Superannuation?*
- *How, and from where, can I get more money?*
- *Where can I safely investment my money?*
- *How much should I put into KiwiSaver?*
- *Should I buy a 2<sup>nd</sup> property, a business, or invest in the share market?*
- *How much do I need to keep aside for a rainy day?*

all from a very New Zealand perspective.

to retire before they were 45.

## Course outline

This document is "Lesson 7 – The Phases of Retirement" of the comprehensive course material supporting our simple step by step approach to creating your financial retirement plan.

The course material comprises:

- a summary 'Retirement Planning Guide'
- a 'Retirement Roadmap'
- a supporting 'Retirement Planning excel spreadsheet'
- more comprehensive training guides ("Lessons") for various tasks along the way if you need them
- additional supporting spreadsheets if you need any further assistance

All material can be downloaded and printed from the downloads page on our website:

<http://www.bizxtra.co.nz/>

Most people complete their retirement plan using just the Planning Guide, Roadmap and the Excel spreadsheet that supports the guide. Additional information is provided to support you along the way if you get stuck, don't understand a concept, or just need some further ideas to try out as part of your planning.

*"Don't ever forget, that the main plan in life is always to enjoy a long and prosperous retirement."*

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## Latest Version

Market prices, superannuation and benefit rates, Government policies, inflation, costs of living, house values etc. all change on a regular basis. The numbers in this document have been updated to reflect the market position as at July 2025.

## Lesson 7 – The 6 Phases of Retirement

Now that you have completed the first lessons, before we continue with our retirement planning, we need to understand a little bit more about retirement.

Just as there are six steps you need to follow to create your retirement plan, there are six phases of retirement.



### Common Phases

Many financial advisers suggest you should think of your retirement in three phases:

‘Early retirement’ – when you want to travel, maybe do up the house, take up a new sport or hobby, visit the grandkids etc.

‘Mid-life retirement’ – you still want to do these things, but you are starting to slow down. Maybe your expenses are reducing (the number or duration of those overseas trips have reduced), or maybe your costs have gone up (I wish I had looked after my body better when I was younger).

‘End of life retirement’ – This is not your last couple of weeks on the planet. But this is when you are really slowing down. Maybe you have sold the home and moved to a retirement home/village, you have moved closer to family, looking at your own garden is more enjoyable than looking at gardens across Europe.

Just as the expectations of our lifestyle will change as we age, the costs during each phase of our retirement also change. Therefore, we need to reflect these changes in our retirement planning.

### Additional phases

What we use in the planning spreadsheet are the six phases of retirement:

1. The time from today until we retire, ‘pre-retirement’
2. The time in ‘early retirement’
3. The time during our ‘mid-life retirement’ phase
4. The time during our ‘end of life retirement’ phase
5. The time one partner is expected to be ‘living alone’
6. Plus we add a couple more years just to be on the safe side, ‘contingency’.

We add the first phase to better understand what we can do pre-retirement to help get our finances under control and start bridging any financial gaps in our retirement. We also add two additional phases at the end – the time one partner is living alone, plus some contingency. We add these, as these two phases have significantly different costs than the previous phases.

Behind the scenes, we are also modelling in our spreadsheet four categories of numbers across each phase that we have already introduced:

- a. Our income - as this generally changes between phases
- b. Our expenses – as these usually reduce as we get older
- c. Our assets – we need to track what assets we have generating income for us, or that we may need to sell to bridge any gaps
- d. Our debts – relating to the things that we are still paying for, that we previously purchased.

As you transfer the data from your forms into the spreadsheet, you have been populating a very detailed planning worksheet. This detailed sheet is hidden in the file, but can be viewed ('unhidden' in Excel speak) and modified if needed.

Many people can find the level of detail daunting and often stop planning. That is why we keep it hidden until we get to the end.

### The costs of each phase

The reason we have split the period of retirement into different phases, is that we have different lifestyle expectations in each phase – and different lifestyle expectations means that we will have different costs, and different costs means we need different amounts of income to meet our costs (expenses). But you already knew all this.

Hopefully by now you also understand the big picture of how our 'wants' and 'needs' (the lifestyle we desire in retirement), impact the money needed to fund that lifestyle. By understanding the phases of retirement, and the different costs incurred in each phase, we can align our investments with the timeframe that we need the income, or need to sell some assets to meet our lifestyle expectations.

Understanding this timeframe will help us make wise investment choices as we look at different assets to bridge the gap. If we know we want to travel as soon as we turn 65 and that is 5 years away, we should not invest in something that has a 10 year horizon (or tax liabilities if sold prior to 10 years such as a rental property).

The early retirement phase is the period of our retirement where we are generally fitter and healthier, have some initial things we want to achieve that we have been waiting until we retire to start, we have places we want to go, and people we want to visit.

A general rule of thumb is that our expenses during this phase, are generally higher than those in the following phase: our 'mid-life retirement', which in turn are generally higher than the 'end of life' retirement phase when we slow down and significantly reduce the amount of travel and sightseeing undertaken. Our expenses also reduce further when one partner dies.

We apply these 'general rules of thumb' to the numbers estimated in our retirement planning spreadsheet. We also use the 'general rules of thumb' for the duration of each phase based on the information you entered on 'Form 1':

Retirement Phase	Time Frame	Cost change from previous phase
1 Pre-retirement phase	The time from today until the first person retires	
2 Early retirement phase	1/3 of the time from retirement date until one partner is living alone	0%
3 Mid-life retirement phase	1/3 of the time from retirement date until one partner is living alone	-10%
4 End of life retirement phase	1/3 of the time from retirement date until one partner is living alone (plus any rounding to make full years)	-10%
5 Living alone phase	this is based on life expectancy dates of the people	-30%
6 Contingency phase	4 extra years	-10%

Table L4.1.

These rules of thumb can be changed as needed. Obviously if you don't have a partner and are planning for yourself, then the living alone reduction would be closer to 0%.

### The duration of Each phase

The general rule of thumb for the duration of each phase are determined from the information you entered on Form 1. Phases 2,3,4 are basically a third of the time between when the first person retires, until one person dies.

Retirement Phase	Time Frame
1 Pre-retirement phase	The number of years from when the planning starts until the first person retires
2 Early retirement phase	1/3 of the time from retirement date until one partner is living alone
3 Mid-life retirement phase	1/3 of the time from retirement date until one partner is living alone
4 End of life retirement phase	1/3 of the time from retirement date until one partner is living alone (plus any rounding to make full years)
5 Living alone phase	this is based on life expectancy dates of the people
6 Contingency phase	4 extra years

Table L4.2

If your ages are similar, then these rules of thumb are sufficient for planning. But if there is a large age gap between you and your partner, you may want to increase the early retirement phase (while you are both still mobile) and reduce the Mid-Life retirement phase (or End-of-Life phase).

You will review and adjust these general rules of thumb on the next two Forms. The impacts of any changes flow into the calculation of your financial gaps.

## STEP 3 – Confirm your Financial Gaps



If you have entered the data from the first three forms into the free retirement planning spreadsheet, any gaps will be displayed on the 'Retirement Plan' worksheet. These calculations are all performed for you.

You just need to enter the target interest rate (e.g. 6%) you decided on (on Form 3), and enter this into the spreadsheet. This will be used to calculate a range of Asset Gaps (your entered rate plus or minus 1%).

The asset gap is calculated using your current income generating assets. By default this excludes the family home.

The Gap will only be as accurate as the data you have provided

If you have no gaps, you could stop planning, close the spreadsheet and stop reading this Guide. You are in better financial shape than most people.

But you could look to see if you are generating sufficient income to retire earlier than planned, or if you could make better investments enabling you to have an even better lifestyle in retirement, travel for longer, upgrade the kitchen sooner, or buy that new car you have always wanted. So maybe you should keep reading.

### Form 4 – Confirm your current retirement Costs

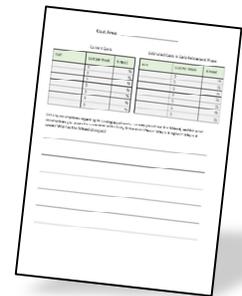
To 'accurately' calculate any financial gap, you should first correct any assumptions (on the first three forms) and modify your current and early retirement costs based on any new research you have undertaken.

You need to ensure you have confidence in your current costs, and the first phase of retirement, so you can estimate the later phases (costs and duration), and then recalculate any financial gaps you need to address.

Refining your numbers is not an easy task, but you need to feel comfortable they are in the right ballpark. Trying to build a future plan for your retirement, while starting on flaky foundations – will result in a worthless plan. It would be like trying to determine the impacts of global warming, based on yesterday's rainfall. Maybe confirm one category a week or one per month and decide to carefully track that category of spending. If you are a cash user, take notes of all your spending in a notebook as you spend the cash.

Once you have visibility of your current costs, and a rough split between 'wants' and 'needs' you may even want to go back and refine your weekly lifestyle estimate. This in turn will let you recalculate the income and asset gap that you may have.

Validate the top 3 or 4 (in cost) categories of expenses to feel comfortable they are in the right ballpark. Print of some copies of 'Form 4' and research your current costs for these categories. Once you have completed the forms, adjust the data via the 'Form 4' sheet in your retirement planning spreadsheet.



When you apply the ‘general rules of thumb’ to the numbers estimated for your retirement lifestyle, you will find they alter the \$’s needed for retirement, and subsequently the size of any gaps to be filled.

For John and Jane, this now suggested they needed \$2,800,000 to survive their retirement. These are only a ‘rule of thumb’ as your health, lifestyle, family, the Government etc can impact these numbers significantly. Hopefully you are starting to appreciate the key assumptions that have the biggest impact on your retirement.

### Form 5 - Confirm the costs and duration of each retirement phase

Use Form 5 to confirm the changes you expect in each phase of your retirement.

There are two rules of thumb you need to consider:

1. The % reduction of costs in each phase
2. The duration of each phase



#### Cost Adjustments

To change your current or pre-retirement costs, use Form 4 and adjust the appropriate category as needed. For the later phases you only need to adjust the percentage to adjust the costs higher or lower. As you are predicting costs so far in the future, the level of detail is not required.

Any reduction in costs is the reduction from the prior phase, and not a reduction from your current costs. Don’t forget to check that the weekly costs are still realistic, and that you and your Partner are comfortable with that level of lifestyle in the later years of retirement.

#### Duration Adjustments

To change the number of years in pre-retirement, you will need to go back to Form 1 and adjust the details on that form.

If you make changes from the ‘general rules of thumb’ identified above don’t forget to update the reasons for the change, and to update the values in your planning spreadsheet.

As previously indicated, changes on these Forms update the hidden detailed planning spreadsheet you are populating. If you make changes on the Forms 4 or 5 worksheets, you can review the ‘Gaps’ worksheet (which is a summary of the detailed plan) to see any impacts you have made – have you closed the financial gaps or made them wider?

You can also adjust the investment interest rate on the Gaps worksheet and see the impacts on your retirement. While setting this to 30% may close all the gaps, anything above 7% is basically relying on Lotto for your retirement.

### Step 3 – Summary

At the end of Step 1, we identified three big assumptions that have the most impact on retirement:

1. *Life expectancy* - how long are we expected to live,
2. *Retirement date* - as it impacts how long we must fend for ourselves in retirement, and
3. *Chosen lifestyle* - as it predicts our costs during retirement, which in turn determines how much income we will need.

At the end of Step 2, we explained why it is important to have a clear and accurate picture of your current financial position, so you could calculate if you have any gaps in your financial situation in retirement (the difference between what is needed in retirement, vs what you already have).

In Step 3, we identified the 4<sup>th</sup> big assumption that will impact our retirement.

4. *Assumed Interest Rate* – this is the rate used to calculate the size of any asset gap you have to bridge. It calculates the value of assets needed to fill any income gap in retirement. The higher the rate, the less income generating assets needed, but the more risk you will assume, that you may or may not be comfortable with.

For John and Jane, as a result of calculating their financial gaps and validating all their assumptions and decisions, they agreed they would:

- increase their life expectancy (John +5, Jane +2 years)
- reduce their cost estimates by an average of \$270 per week
- change the tax rates for Government Super as they needed to generate additional ‘passive income’ during retirement
- stick with the 6% return until they learnt more about investing for their retirement.

These changes had an impact on the value of the income generating assets needed to help bridge their income gap. The good thing is the gap continued to get narrower as their understanding grew.

Previously (V1) they had a gap somewhere in the range -\$46,000 to -\$363,000. After making these changes (V2) the range had changed from having sufficient assets +\$72,000 to -\$197,000.

Interest Rate	V1 Value of Assets Needed	Less Current Assets	V1 Shortfall	V2 Value of Assets Needed	Less Current	V2 Shortfall
5%	\$ 1,111,006	\$ 747,574	-\$ 363,432	\$ 945,012	\$ 747,574	-\$ 197,437
6%	\$ 925,838	\$ 747,574	-\$ 178,264	\$ 787,510	\$ 747,574	-\$ 39,935
7%	\$ 793,576	\$ 747,574	-\$ 46,001	\$ 675,008	\$ 747,574	\$ 72,566

Table F5.1

The good thing was that the gap continued to get narrower as their understanding grew.

## Form 4 – Understanding your initial Costs, Wants and Needs

### **Validate your top 3 or 5 'high cost items' and record them in the areas below**

Select your top 3 (or 5 if needed) cost categories, and confirm your current weekly costs. When you have the costs confirmed, make an estimate of how much is a 'need' vs a 'want'. When that is complete, do the same to make an estimate of your costs during the initial phase of your retirement.

If you identify you have high costs, you should list any ideas you have to reduce them, or why you need (not want) them.

You should also aim to have no debts as you enter retirement. If you have debts, list some ideas to become debt free.

Don't forget to update any information on the prior forms if needed.

Below are common items included within each category.

Utility Costs: This category includes all Utility costs such as Power, Gas, Water, Firewood. It excludes any communications or internet costs.

Food Costs: This includes all normal food costs per week such as the supermarket and fruit and vegetable markets. It excludes any takeaways and eating out costs that will be covered as Fun Activities

Transport Costs: This includes all transport related costs such as public transport (e.g. Taxis, trains, Uber, E-scooters) and if you own a car (Fuel, Registration, WOF and Regular maintenance. It excludes any Insurance costs.

Accommodation Costs: This category includes all costs excluding insurance relating to owning or renting a property. This includes rates, body corporate, general maintenance, gardening and an estimate of regular furniture and whiteware replacement or repairs.

Health Costs: This includes all costs relating to staying healthy. Memberships to gyms and clubs, doctor and dentist visits, glasses, prescriptions, physio visits, and audiologist visits. It includes the costs of any preventative check-ups (e.g. diabetes, heart and cancer screening: colon, prostate, skin, bowel) that you may have to pay for.

Personal Costs: These costs relate to items such as your hair, clothing, footwear and other general costs you incur keeping yourself looking young and beautiful.

Giving Costs: These costs relate to money you give to charity, the church, or use to buy presents for friends and family. In retirement many people substitute \$'s for voluntary hours worked

Communication Costs: This category includes all costs relating to your phones (mobile and landline) and internet. If you still write letters, then postage would go here as well.

- Insurance Costs: This includes all costs relating to any insurance you pay for (life, trauma, health, car, house, contents, caravans and trailers, business etc.).
- Fun Stuff: This is all the fun stuff you do that are basically wants and not needs, but you still need to enjoy life. This includes costs of holidays, eating out, coffee, theatre, socialising, going to bars, tobacco and other drugs, Netflix, Sky, Spotify etc. Basically, if it is fun – it is discretionary and the %need is generally somewhere around 0% (i.e. it is a 'want') – and that is fine, we still want to enjoy life and our retirement.
- Pet Costs: This category includes all costs relating to any pets you may have (cats, dogs, rabbits, gold fish etc). This includes vet fees, feeding costs, registration fees, boarding fees etc. If you plan to do travel frequently, remember that animal boarding costs can be very high. Maybe buy/give your kids the pet so you get to enjoy it without the costs.
- Debt Repayments: This is a list of all the regular debt repayment items you need to make such as mortgages, credit cards, finance loans, credit contracts (hire purchase) etc. Basically, information you should have already collected can be summarised here. Just as fun activities are generally 0%Need, Debts are generally 100% Need. You must repay your debts! We will investigate these in more detail in a later step.
- Admin Costs: These are the miscellaneous costs you incur each month (added as weekly costs) for such things as bank charges, credit card fees, bank fees, account fees etc. All those things that appear on your bank statement each month from the bank or other finance companies.
- Dependent Children (or other family member) Costs: These are the costs you incur relating to looking after or supporting dependent relatives. This includes childcare costs, school fees, their wellbeing costs and their personal costs.
- Other Costs: These is a place to add any other costs you have that are not previously covered. It's a good idea to check your bank statements at his point to see if you have missed anything.

Cost Area: \_\_\_\_\_

Current Costs

Estimated Costs in Early Retirement Phase

Item	Cost per Week	% Need
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%

Item	Cost Per Week	% Need
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%

List any assumptions regarding this category of costs, list why you chose the %Need, and list what assumptions you made for each item in the Early Retirement Phase: Why is it higher? Why is it lower? Why has the %Need changed?

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Cost Area: \_\_\_\_\_

Current Costs

Estimated Costs in Early Retirement Phase

Item	Cost per Week	% Need
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%

Item	Cost Per Week	% Need
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%

List any assumptions regarding this category of costs, list why you chose the %Need, and list what assumptions you made for each item in the Early Retirement Phase: Why is it higher? Why is it lower? Why has the %Need changed?

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Cost Area: \_\_\_\_\_

Current Costs

Estimated Costs in Early Retirement Phase

Item	Cost per Week	% Need
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%

Item	Cost Per Week	% Need
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%
	\$	%

List any assumptions regarding this category of costs, list why you chose the %Need, and list what assumptions you made for each item in the Early Retirement Phase: Why is it higher? Why is it lower? Why has the %Need changed?

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## Form 5 – Understanding each retirement phase costs

What you need to do for each phase of retirement is to estimate if your costs will go up, down, or stay the same. This is just a % increase or decrease from the prior phase. E.g. +5%, -7%, 0% (no change)

You should document the assumptions you make as to why our costs will change (or not):

- Think about your respective ages in each retirement phase and what impact that may have on your lifestyle during that phase.
- Think about where you might be living (at some stage you might need to consider a rest home or retirement village).
- Think about where your family might be, what they are doing, and where the grandkids may reside.
- Think what your health status may be, do you need to add special features to the property to access it (ramps vs stairs).
- If you own a house, think of any maintenance it might need (a roof generally only lasts 25 years, outside paint 10 – 15 years, inside refresh etc.)
- If you want to keep driving, think about how old that car is getting.

We have provided the general 'rules of thumb' for the cost reductions in each phase, but you need to consider what will happen in your retirement. You might have family overseas that you want to visit each and every year until the retirement home won't let you out. You might want to adopt 5 or 6 cats in later retirement – pets cost a lot of money to maintain.

Understanding and predicting your future costs, and then planning on how you will fund them, is all part of retirement planning. This also helps incorporate a 'no surprises' approach to our retirement planning (or at least a 'less surprises' approach).

In pre-retirement, our current Costs per week are: \$ \_\_\_\_\_

In Early Retirement, these costs will change to: \$ \_\_\_\_\_ per week. This is a : \_\_\_\_\_% change from the pre Retirement Phase. The reasons for this change are:

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In Mid Life Retirement, these costs will change: \_\_\_\_\_% from the Early Retirement Phase. The reasons for this change are:

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At the End of Life phase, these costs will change: \_\_\_\_\_% from the Mid Retirement phase. The reasons for this change are:

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When one of us is Living Alone, these costs will change: \_\_\_\_\_% from the End of Life Retirement phase. The reasons for this change are:

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And in the contingency phase, these costs will change: \_\_\_\_\_% from the Living Alone Retirement phase. The reasons for this change are:

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You can also adjust how long each retirement phase will last. These are initially estimated as being:

Retirement Phase	Time Frame	Change from previous Duration
1 Pre-retirement phase	The time from today until the first person retires	Change age of retirement on Form 1
2 Early retirement phase	1/3 of the time from retirement date until one partner is living alone	
3 Mid-life retirement phase	1/3 of the time from retirement date until one partner is living alone	
4 End of life retirement phase	1/3 of the time from retirement date until one partner is living alone (plus any rounding to make full years)	Change Life Expectancies on Form 1
5 Living alone phase	this is based on life expectancy dates of the people	Change Life Expectancies on Form 1
6 Contingency phase	4 extra years	

The reasons for these duration changes are:

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