



Vanguard research

Vanguard's Principles for Retirement Income

Vanguard

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Introduction

Retirement planning is ultimately about one question: How can you turn your savings into income so you can reliably support the life you want to live? That includes everyday expenses, meaningful experiences, and, for many people, the desire to leave something behind for family or causes they care about. Two households with the same savings may face very different outcomes depending on their spending needs, income sources, and personal priorities.

This paper focuses on income as the foundation of retirement security. When income is less predictable in retirement, risks like market swings, inflation, health care costs, and longevity carry more weight, which is why reliable income plays such a significant role in retirement planning. People who do not have a sound retirement plan may spend less than they can afford out of concerns of avoiding future cutbacks, or more than they should without realizing the long-term impact.

By shifting focus from account balances to sustainable income and personal goals, this paper aims to help you better understand how your savings can translate into the retirement you want. The goal is not to offer a single answer for everyone, but to provide a clear framework for making confident spending decisions, understanding the trade-offs of those decisions, and navigating retirement with greater peace of mind.

Our four principles for retirement income can help you align your goals, manage your risks, and use your resources wisely. The key insight is this: The most important factor for a successful retirement plan is not how much you've saved, but how much you withdraw from your portfolio each year. And, if you're concerned about withdrawing too much, we have some practical

strategies that may help support your income goals. Our four principles for retirement income are:

Start with purpose

Define what matters most—your goals, lifestyle, and priorities. Understand the risks you could face and build a spending plan around them.

Cover the essentials

Ensure your basic needs, such as housing, food, and health care, are supported by reliable income sources like Social Security, pensions, and annuities.

Make your wealth last

Extend the life of your portfolio by managing debt, reducing taxes, using smart withdrawal strategies, and preparing wealth transfer plans.

Simplify

Make your financial life as simple as possible so you have more time for the things that are most important to you.

This guide is intended to be a series of modules so that you can focus on the principles that are most relevant to your situation. We have included case studies (starting on page 35) that highlight how these approaches can be mixed and matched to address different retirement needs.



Start with purpose

Defining your purpose isn't a one-time event—it will likely change many times throughout your life. Early on, your purpose may be getting an education and choosing a career. As you age, it may shift to things like starting a family, securing your retirement, giving back to your community, and leaving a legacy.

Everyone's purpose is different, which is why defining yours is so important. While your purpose will likely change, one thing doesn't: Great planning starts with clear priorities. Putting your purpose at the center of your plan helps you clarify your goals, account for key expenses, ensure your plan is sustainable, and prepare for the risks that could shape your retirement.

Define clear, personalized goals

Before you can build a retirement plan, you need to know what you're planning for. That's why the first of Vanguard's Principles for Investing Success is to set clear, appropriate goals (Vanguard, 2023). A retirement plan can't be reduced to a single number—it's a collection of goals that balance your needs, wants, and wishes.

- **Needs** are the essential expenses required to maintain your standard of living, which typically include housing, food, utilities, transportation, and predictable health care costs.
- **Wants** are lifestyle expenses that improve your day-to-day enjoyment but can be adjusted if needed, such as travel, dining out, entertainment, and hobbies.
- **Wishes** are more aspirational, legacy-oriented goals that are often funded only after securing needs and wants, and may include supporting family, giving to charity, or leaving a bequest.

Let's start by thinking through the three most common types of goals.

1. Retirement spending

Covering day-to-day expenses is at the core of most retirement plans. This includes your needs, but should also include some wants. Think of it as your personal paycheck replacement plan.

2. Contingency fund

A contingency fund keeps you prepared for the unexpected. Surprises like medical expenses, long-term care needs, and major home repairs can derail a plan without proper foresight.

3. Lifetime gifting and legacy

For many people, retirement is about more than personal spending—it's about helping others. Whether it's assisting family, supporting a cause, or leaving a bequest, this goal is about the legacy you leave.

TAKE ACTION

Define your retirement goals

- **List what matters most.** Start with what you want your retirement to look like, considering your needs, wants, and wishes.
- **Estimate the costs.** Attach rough dollar amounts to each goal. You don't need to be exact, just realistic—and don't forget about taxes.
- **Revisit regularly.** Your goals may evolve. Check in annually or after major life changes to keep your plan aligned with your goals.

Estimate your retirement expenses



Key takeaways

- In the first years of retirement, retirees typically spend about 80% of their pre-retirement income, with basic needs making up the majority of that spending.
- While averages can provide a good starting point, it's important to tailor your strategy to your goals and situation.
- Consider what you truly need: housing, food, health care, and taxes. Then add in things that can elevate your lifestyle.
- Be prepared for health care costs. It's relatively easier to account for routine medical expenses, but emergencies and late-life care can bring unexpected bills.

Start with data

Planning for retirement expenses is, at its core, about balancing your needs with your wants and wishes. But planning that over a lifetime isn't simple. Rules of thumb, like spending a fixed percentage of your savings each year, can help you get started, but actual expenses often look different in practice. To ground your plan, we look at real-world data findings on how retirees spend.¹

Middle-income retirees in the U.S. typically spend about 80% of what they earned before retiring, while lower earners spend close to 96% of their pre-retirement income and higher earners spend as little as 40% of theirs ([Tan et al., 2023](#)).²

Figure 1 shows a typical early retiree's spending budget by marital status.

FIGURE 1

For early retirees, essentials make up about 85% of total annual spending

		Single	Married
Essentials	Housing and maintenance	\$19,100	\$34,100
	Transportation	\$9,900	\$10,900
	Health	\$4,100	\$5,600
	Food	\$6,100	\$9,600
	Clothing and personal care	\$1,100	\$1,800
	Total essential spending	\$40,300	\$62,000
Discretionary	Gifts and donations	\$5,500	\$7,000
	Trips and vacations	\$1,100	\$2,600
	Leisure	\$800	\$900
	Total discretionary spending	\$7,400	\$10,500
Total annual spending	\$47,700	\$72,500	

Notes: The reported values represent weighted medians for each spending category among households that were retired and ages 65–69 in 2019, the reference year for the RAND HRS Consumption and Activities Mail Survey (CAMS). Figures are rounded to the nearest hundred. See Appendix 4 on page 50 for more details.

Sources: Vanguard, using 2021 data from the RAND HRS.

- 1 The findings in this section are based on the RAND Health and Retirement Survey (HRS), a nationally representative longitudinal study that collects financial, spending, health, and socioeconomic data from U.S. adults age 50 and older every two years.
- 2 Retiree income groups are based on pre-retirement earnings. Middle income is the median (\$42,000), lower earners are those at the 25th percentile (\$22,000), and higher earners are those at the 95th percentile (\$173,000), all in 2019 dollars.

Focus on the essentials

For your own spending plan, start by estimating the cost of your needs—the expenses that, if left unpaid, would critically lower your standard of living. Most retirees allocate about 85% of their retirement budget (around 70% of their pre-retirement income) to essentials like housing, food, and health care. However, something that counts as optional for one retiree, like travel, may be essential for another. Your plan should reflect your own circumstances.

TAKE ACTION

Determine your essential retirement expenses

- **Calculate the cost of your basic needs.** Think food, housing, clothing, utilities, and transportation.
- **Include health care.** Add medical insurance premiums and out-of-pocket costs.
- **Personalize your plan.** Factor in any other needs or bills you have that can't be skipped.
- **Think ahead.** Don't forget about taxes and inflation when making calculations.

Plan for health care needs

Health care is one of the most complex retirement expenses. While it's certain you'll need some care at some point, the timing, type, and cost can vary widely. How you account for these needs depends on three things: your insurance coverage, savings, and personal care preferences.

Planning ahead can help turn guesswork into confident decisions. [Recent Vanguard research](#) highlights essential steps for building a health-aware retirement plan, like exploring your options, estimating costs, and making decisions that align

with your values ([Weber et al., 2025](#)).³ With thoughtful planning, you'll be ready to support your greatest retirement asset: your health.

TAKE ACTION

Plan for health care needs

- **Make it a priority.** Be sure to include health care costs in your retirement plan.
- **Estimate your costs.** Include insurance premiums and out-of-pocket payments.
- **For more information.** See Weber et al. (2025) to learn more about health care spending in retirement.

Create a contingency fund

At some point during your retirement, you'll likely face an unexpected expense like a major home or car repair, an HOA or condo assessment, or an uninsured medical expense. If the expense is large enough, you could be forced to withdraw so much from your portfolio that you can't sustainably meet your spending needs.

To help address this risk, you can set aside money earmarked for just these emergencies. While it can be difficult to determine the appropriate size for a contingency fund because the expenses it is meant to cover are inherently unpredictable, you can start by looking at your lifestyle and living situation to identify potential hidden or variable costs.

Be sure to maintain enough assets to cover at least a portion of these unexpected expenses. This money should still be invested alongside your other retirement savings, but you should set your contingency fund aside when calculating your sustainable spending rate. This will help make sure that unexpected expenses don't force major lifestyle changes.

³ The health-aware retirement plan presented in Weber et al., (2025) includes six steps: (1) establish your health care priorities, (2) decide on insurance coverage, (3) estimate your potential costs, (4) incorporate health care costs into your retirement plan, (5) take measures to deal with possible income gaps, and (6) enact the plan. That paper notes that bridging the gap until Medicare can be costly for early retirees, as ACA marketplace premiums at age 64 may be over four times more expensive than Medicare. Early retirees should carefully assess options such as ACA marketplace coverage or employer programs.

How much can you spend from your portfolio?



Key takeaways

- Take inventory of your retirement assets and group them by account type.
- Your withdrawal rate is the most important number in your retirement plan because it determines how long your money will last.
- A withdrawal rate of 3.5%–4% can support retirement income for 30 years or more, according to our analysis.

To answer the question of how much you can spend in retirement, you first need to know how much you have saved. Begin by taking inventory of your assets that are available to fund your retirement across all your accounts. Once you know what accounts you have and how much you've saved in each one, group your assets by account type: Tax-deferred accounts, such as traditional 401(k)s and IRAs; tax-free accounts, such as Roth 401(k)s and IRAs; taxable accounts; and any pensions or other account types. From there, retirement readiness comes down to how much you can withdraw each year to cover essential and discretionary expenses while still leaving room for future needs like health care costs or charitable giving.

The most important number in your retirement plan is your portfolio withdrawal rate, or the percentage of your savings you withdraw each year. Here's how you calculate it:

- Take your total expenses and subtract any income that comes from outside your portfolio, such as Social Security, a pension, an annuity, or continued employment.
- Take your portfolio balance and subtract your contingency fund.
- Divide the first number by the second number: This is your portfolio withdrawal rate.

Across our retirement planning analysis, we find that, for many households, covering the remaining gap with withdrawals of roughly 3.5%–4% of savings per year, after Social Security and other reliable income, can support retirement for 30 years or more.

You can then tailor that rate to fit your situation. A lower withdrawal rate can help preserve savings for a longer retirement, support a surviving spouse, or finance late-life health care costs or a bequest.⁴ A higher withdrawal rate increases the risk of depleting savings too quickly, especially if markets underperform early in retirement. However, a higher rate can be a reasonable strategy if you are later in retirement or have a relatively shorter planning horizon.

⁴ For more information on health care planning, see "Plan for Health Care Needs" on page 6. For more information on legacy planning, see "Estate and Wealth Transfer: Planning With Purpose" on page 29.

Figure 2 illustrates how adjusting your withdrawal rate can impact how long your portfolio lasts. While the figure is designed to be simplistic, it helps illustrate the idea that, all else equal, the more money you take out, the shorter your portfolio will last.

If you're worried your withdrawal rate could be too high, even a small change can have a big impact. Reducing your withdrawal rate by 0.5 percentage points can make your savings last another five years.⁵ Look at your list of needs, wants, and wishes you made earlier. Starting with your wishes, see what expenses you might be able to cut and how that affects your portfolio spending rate. If your withdrawal rate is still too high, don't worry; we explore strategies to make your portfolio last longer and strengthen coverage of essential expenses in the "Cover the Essentials" section on page 13.

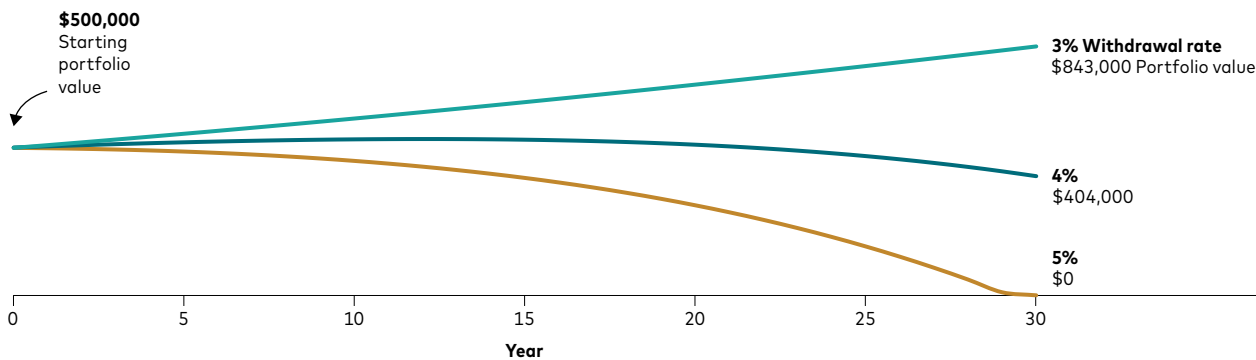
TAKE ACTION

Calculate your withdrawal rate

- **Determine your portfolio withdrawal needs.** Total expenses – reliable income (Social Security + pension + wages + annuity) = what your portfolio must cover.
- **Calculate your initial portfolio withdrawal rate.** Portfolio withdrawal needs ÷ (portfolio balance – contingency fund) = your portfolio withdrawal rate.
- **Choose a sustainable rate.** Target a withdrawal rate of roughly 3.5%–4% for a 30-year retirement if you don't have a significant legacy goal. If leaving assets to heirs is a priority, or if you're an early retiree or a married couple expecting at least one spouse to need income beyond 30 years, consider a lower withdrawal rate.
- **Revise as needed.** If your withdrawal rate is too high, look at your spending plan and see where you might be able to cut back.

FIGURE 2

A small increase in withdrawal rate can significantly impact retirement sustainability



Notes: These calculations assume a portfolio with an initial balance of \$500,000 and annual returns of 5%. In each case, the initial withdrawal amount is increased by 2% annually at the beginning of each year to account for inflation. Values are rounded to the nearest thousand. This hypothetical illustration does not represent the return on any particular investment, and the rate of return is not guaranteed.

Source: Vanguard.

⁵ This calculation assumes a portfolio with a beginning balance of \$500,000 and annual returns of 5%, and compares an initial withdrawal rate of 5% (\$25,000 per year) with an initial withdrawal rate of 4.5% (\$22,500 per year), both increased by 2% annually for inflation. With a 5% withdrawal rate, the portfolio lasts 29 years, with a 4.5% withdrawal rate it lasts 34 years.

Navigate risks to meet your goals

Smart retirement planning accounts for roadblocks that could get in the way. Awareness of potential risks is essential, because you can't plan around challenges you don't recognize. Market moves and unexpected changes in health can influence your retirement success. Frequently or significantly changing your plan can also turn a secure retirement into a moving target, increasing the risk of overspending or missing key goals. Understanding these risks—and planning for them—can help you stay on track and feel more confident about your retirement.



Key takeaways

- **Market and inflation risk.** Market swings and rising costs can erode your portfolio's value. Diversify your holdings and include growth-oriented assets to help maintain purchasing power.
- **Longevity risk.** While living longer is a good thing, it can also stretch your resources thin. Cover essential expenses with guaranteed income sources, such as Social Security, annuities, and pensions.
- **Health risk.** Big medical bills can strain your finances. Review your insurance coverage and savings, and prepare for both routine and late-life health care costs.
- **Event risk.** Unexpected large expenses, like uninsured medical costs or major home repairs, can derail your retirement plan. Maintain a contingency fund to help cover these.
- **Behavioral risk.** Emotional decisions can result in costly mistakes. Stay the course, stick to your plan, and avoid making emotional decisions during market swings.

Market and inflation risk

While every investor faces market risk, it can have a bigger impact on retirees because they have to withdraw from their savings to fund living expenses regardless of market conditions and there's less time to recover from losses. This is especially impactful if a significant downturn happens early in retirement—commonly referred to as sequence-of-returns risk. Poor returns early on can permanently impair a retiree's portfolio since necessary withdrawals reduce the assets available to participate in a subsequent market recovery.

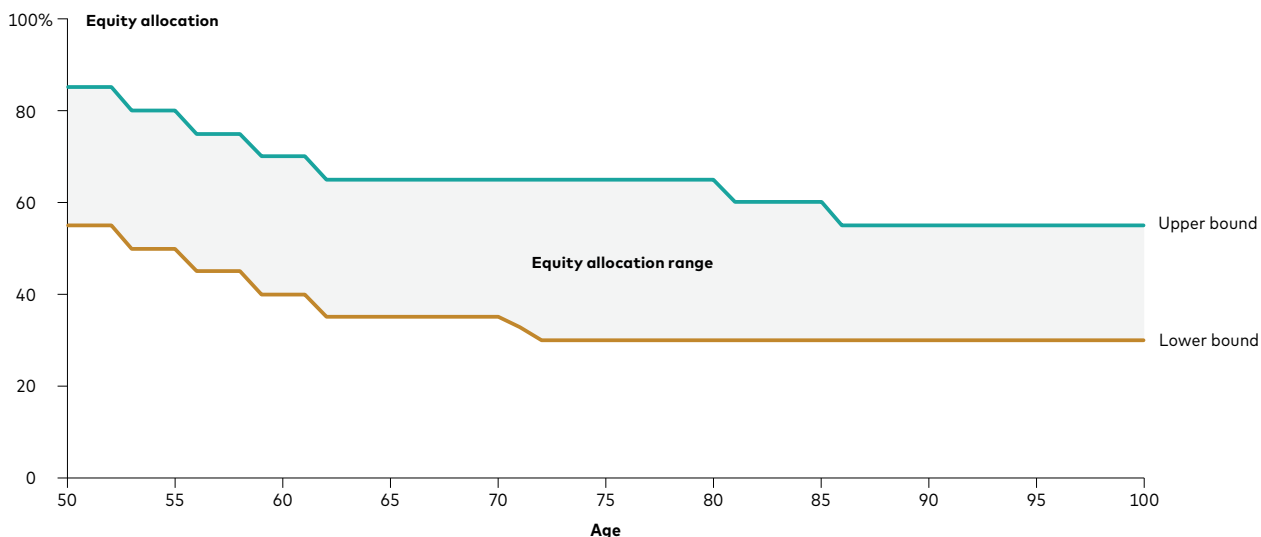
Rising costs are another major challenge. Even modest inflation, like 2.5% annually, can halve your purchasing power—how much you can buy, adjusted for inflation—over the course of 30

years. Plus, some expenses that matter more in retirement, like health care, often rise faster than average inflation.

Diversification is an effective way to help manage both market swings and inflation. We recommend spreading your money across stocks, bonds, and cash, using **Figure 3** as a starting point for how allocations could shift with age. Your personal asset mix should also reflect your comfort with risk (would a volatile portfolio keep you up at night?), your ability to take risk (can you withstand losses?), and what you're trying to accomplish, such as balancing near-term spending needs with long-term growth. Including growth investments can help preserve your purchasing power and a disciplined, diversified strategy can help you stay on track through market ups and downs.

FIGURE 3

Equity allocations should generally decrease approaching and through retirement



Notes: The figure assumes a retirement age of 65 and planning horizon to age 100. The figure shows equity allocation recommendations by age used across various Vanguard advice solutions, with the upper bound more aggressive and the lower bound more conservative.

Source: Vanguard.

Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

Investments in bonds are subject to interest rate, credit, and inflation risk.

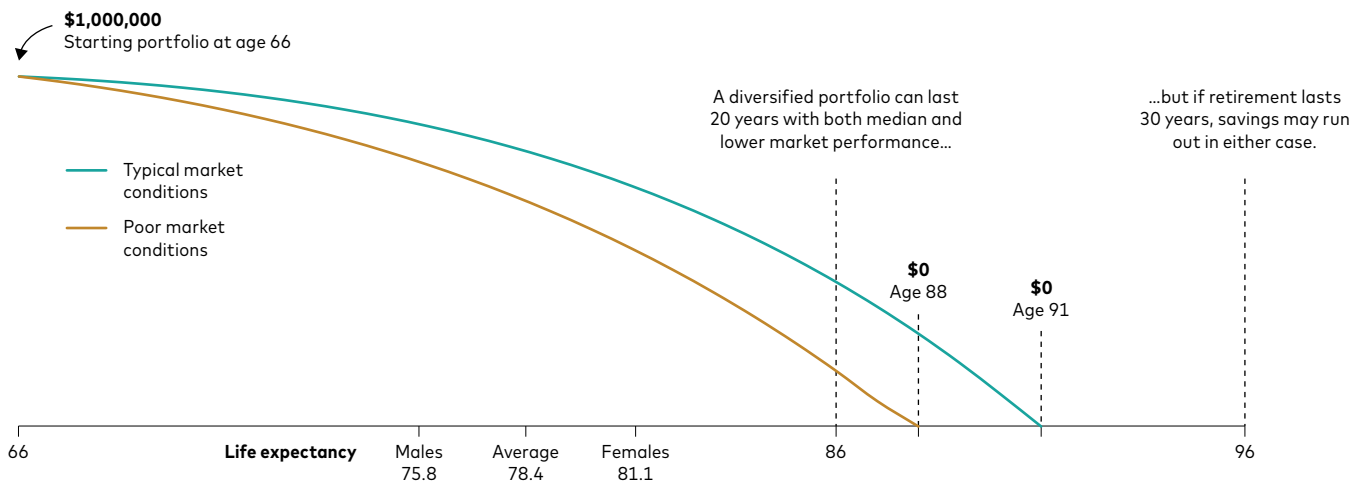
Longevity risk

People today are living longer, healthier retirements. This is wonderful news, but living longer means your savings need to support you for more years. Our research shows that a diversified portfolio of \$1 million starting at age 66, with a 6% withdrawal rate and 2% inflation, can last 20 years with median and poor market performance. If retirement lasts 30 years, however, savings may run out in either market scenario, as shown in **Figure 4**. This longevity risk—the risk that you may outlive your savings—

highlights an important point: The length of retirement often matters as much as market performance.

To hedge against longevity risk, try to cover your essential expenses with guaranteed income sources, such as Social Security, pensions, and annuities, so your basic living expenses are covered no matter what happens.⁶ For couples, prepare for one partner to outlive the other and ensure sufficient income is available for the surviving spouse. Planning with these factors in mind helps ensure your money can support a long, fulfilling retirement.

FIGURE 4
Longevity can be a bigger risk than poor market returns



Notes: The figure assumes a 66-year-old retiree with a starting portfolio of \$1,000,000. The withdrawal amount is initially 6% of the portfolio and increases by 2% annually to account for inflation. The average 30-year geometric return is calculated for a static portfolio composed of 50% equities (60% U.S. and 40% international) and 50% bonds (70% U.S. and 30% international), with median performance at the 50th percentile (5.80% annualized) and poor performance at the 25th percentile (4.81% annualized). The projections shown are based on Vanguard Capital Markets Model (VCMM) simulations run on February 28, 2026. These results are hypothetical, do not reflect actual investment performance, and are not guarantees of future outcomes.

Sources: Vanguard, using data from the Society of Actuaries (SOA).

IMPORTANT: The projections and other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from VCMM are derived from 10,000 simulations for each modeled asset class. Simulations as of February 28, 2026. Results from the model may vary with each use and over time. For more information, please see Appendix 2 on page 48.

⁶ Remember, however, that payouts from pensions and annuities may not adjust for inflation. Check your plan for details.

Health risk

Health risk in retirement is the uncertainty around both the need for care and the ability to pay for it. Most retirees manage health costs without major issues, but a smaller group faces significant strain, especially when extended or long-term care is needed ([Weber et al., 2025](#)).⁷ Cognitive decline can also lead to poor financial decisions and delayed handoff of financial control, especially when it goes unnoticed (Ameriks et al., 2023). These situations add another layer of risk to retirement success, making it even more important to plan ahead for steady income and a clear estate strategy.

Event risk

At some point during your retirement, you'll almost certainly be faced with a major unexpected expense like a large home or car repair, HOA or condo assessment, or uninsured medical expense. If not planned for, these expenses can derail a retirement plan. While unexpected events are by definition unpredictable, creating a contingency fund to pay for these expenses can mitigate the impact of emergencies on your retirement plan, allowing you to live your retirement with more peace of mind.

Behavioral risk

Retirement is a big life change, one that can feel exciting but also overwhelming. Many people face emotional shifts, like losing their sense of identity, feeling isolated, and worrying about mortality ([Osborne, 2012](#)). These shifts can cause people to abandon their retirement plan, and this risk may be heightened when they lack reliable information or a sense of social connection.

For example, many retirees claim Social Security early to feel more in control or avoid missing out, but that choice often means giving up higher lifetime benefits (Shu and Payne, 2023). Others may panic-sell during market dips or leave funds rolled over from their employer plan sitting in cash.⁸ Even major lifestyle changes, like moving or downsizing houses, can bring unexpected costs. In retirement, such financial missteps can hit harder simply because there's less time to recover. That's why the first remedy is to be aware. When your retirement plan accounts for these emotional triggers and offers simple, clear choices, you're more likely to stay on track and feel at ease about your future.

TAKE ACTION

Plan ahead to minimize risks

- **Hold a diversified portfolio.** Owning a combination of stocks, bonds, and cash tailored to your risk tolerance helps balance market risk and inflation risk.
- **Secure your essential income.** Identify which expenses must be covered and consider guaranteed income sources to help hedge against longevity and market risk.
- **Account for health and cognitive changes.** Review your insurance coverage and health care savings, and designate trusted decision-makers before they're needed.⁹
- **Set aside a contingency fund.** Take an inventory of potential costs and earmark some savings for unexpected expenses.
- **Create guardrails.** Revisit your plan before taking action to help you stay disciplined when emotions may run high. Consider working with an advisor to help you stick to your plan.

⁷ For more information on common health-related costs in retirement, see "Estimate Your Retirement Expenses" on page 5.

⁸ Vanguard (2023) found that investors who moved to cash during the COVID market downturn, even briefly, and waited to reinvest recovered more slowly and earned lower returns than those who stayed invested. Separate analysis by Reed et al. (2024) of Vanguard IRA contributions in 2022 found that even after 12 months, 28% of rollover assets and 55% of direct IRA contributions remained in cash or cash equivalents.

⁹ For more information on preparing for health and cognitive changes, see "Protecting Your Assets: Plan Ahead for Peace of Mind" on page 28.



Cover the essentials

The heart of retirement planning is maintaining your standard of living, with essentials like housing, food, and health care as the foundation. That's why we recommend that essential expenses be covered with guaranteed income sources such as Social Security and pensions when available. If you're facing a gap, don't worry—there are options to stretch your money further, like an income annuity that pays guaranteed income for life, working a bit longer, and tapping your home equity. We'll walk you through the options so you can determine what works best for your situation.

Social Security



Key takeaways

- The right age to claim depends on your health, finances, and goals.
- Claiming later (up to age 70) increases your monthly payments.
- Claiming early can make sense if your health or finances require income sooner.
- If you expect to live longer and can cover your lifestyle needs with other income, delaying claiming may work best since it can increase both lifetime and survivor benefits.

Social Security is a key source of reliable, inflation-adjusted income for many retirees (Tan et al., 2023). You can claim Social Security retirement benefits any time from age 62 to 70, with the benefits you receive reflecting your highest 35 years of earnings and when you choose to claim. You're entitled to full benefits, however, only when you reach full retirement age (FRA).¹⁰ Claiming before FRA results in lower monthly benefits, while claiming after FRA results in higher monthly benefits, as shown in **Figure 5**, on the next page.

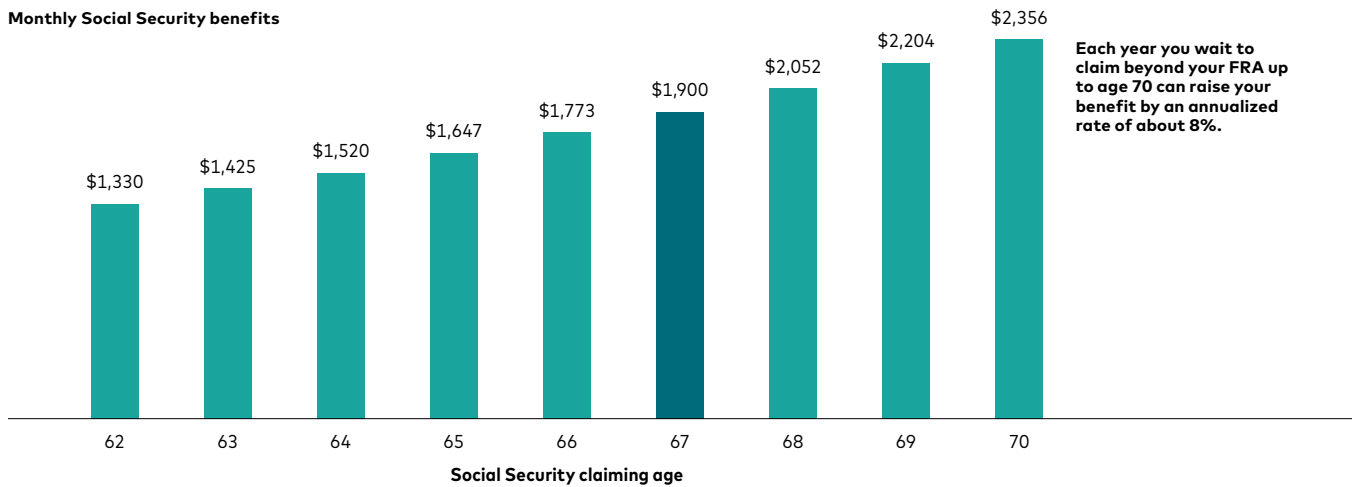
Each year you wait to claim beyond your FRA up to age 70 can raise your benefit by about 8%. Delaying can not only boost lifetime benefits for the person claiming, but for married couples it can also result in higher benefits for a surviving spouse. Social Security is designed to pay approximately the same lifetime benefit no matter what age you claim, assuming you reach your exact life expectancy. Because of this, delaying may make sense if you expect to live longer and can cover the gap with other income. At the same time, claiming sooner may make sense if your health is poor or if your finances call for earlier support. Ultimately, the best approach depends on your health, financial situation, and retirement goals.

¹⁰ FRA is age 67 for those born in 1960 or later. For those born between 1955 and 1959, FRA is 66 years and 10 months.

For married couples, Social Security works best when you plan together rather than separately. When only one spouse claims benefits, it can affect how much income the entire household receives over a lifetime, especially if one spouse has earned significantly more than the other. In many situations, coordinating benefits, such as having the higher-earning spouse claim later

while the lower-earning spouse claims earlier, can increase total household benefits and provide greater financial security should one spouse outlive the other. Thinking about Social Security as a shared decision can help couples feel more confident, avoid missed opportunities, and have more income that they can count on throughout retirement.

FIGURE 5
Delaying claiming increases your monthly Social Security benefit



Notes: The figure illustrates how monthly Social Security benefits vary based on when benefits are claimed. The calculations follow standard Social Security rules with an FRA of 67 and assume an average individual FRA benefit of \$1,900. For primary beneficiaries, claiming before FRA results in a permanent benefit reduction, while delaying claiming until after FRA increases the benefit through delayed retirement credits. The reduction and credits are applied monthly, consistent with Social Security Administration (SSA) formulas. This modeling isolates the impact of claiming age on benefit levels, holding all other variables constant.

Sources: Vanguard, using data from the SSA.

TAKE ACTION

Determine the best Social Security claiming strategy for you

If you are financially secure, flexible with timing, and:

- In good health with a long life expectancy.** Delaying benefits can increase monthly income by an annualized rate of 8% after FRA and may maximize lifetime income.¹¹
- The primary earner in a married household.** Delaying may increase spousal and survivor benefits, especially if your benefit is much higher than your spouse's.
- Do not have immediate financial needs.** Using savings or other income lets your benefit grow and avoids early claiming reductions.

If your withdrawal rate is reasonable, but you're weighing options and:

- Still working before your FRA.** Claiming while working can reduce benefits due to earnings limits. Waiting until your FRA or later avoids this reduction.¹²
- Concerned about longevity risk.** Using Social Security as a bridge—drawing from other assets while delaying claiming— can create a more resilient income stream later in life.

If you are managing a tight budget, need support sooner, and:

- In poor health or have a shorter life expectancy.** Claiming early may help maximize lifetime benefits.
- Unemployed and need income.** Early benefits can provide essential support.
- The lower-earning spouse in a married household.** Claiming age may have little impact if your spouse's benefit is higher than yours.
- Single without dependents.** Survivor benefits are less relevant in this case, so it's less important to delay claiming and maximize benefits.

¹¹ Claiming before FRA results in reductions that vary by FRA and months claimed early. Claiming after FRA earns delayed retirement credits, increasing benefits at an annualized rate of 8%.

¹² The reduction is temporary as benefits are later recalculated and increased at FRA to offset this prior reduction. This spreads the additional benefit over the lifetime of the claimant.

Income annuities



Key takeaways

- Annuities provide guaranteed payments for life. You trade assets today for steady income in the future, which can help cover essential expenses and simplify budgeting.
- Annuities act as insurance for market and longevity risks and often work best for retirees with long life expectancy or high withdrawal needs.
- Options like deferred income annuities (DIAs), single premium immediate annuities (SPIAs), and qualified longevity annuity contracts (QLACs) can help fill income gaps when needed to match your timing and goals.

Market downturns and longer than expected life-spans can reduce the amount retirees can safely withdraw from their portfolios, sometimes below essential expense levels. An income annuity can serve as insurance against this by providing steady, guaranteed lifetime income that isn't affected by market conditions.¹³ Just as health insurance protects you when you get sick, an annuity can help protect you from running out of money if you live longer than expected or experience poor market returns.

With an income annuity, you pay a premium to an insurance company, either as a lump sum or in installments, and the insurance company pays you a guaranteed income for life—in effect, you trade assets today for income in the future.¹⁴

While the costs of annuities may give some people pause, the concept isn't new. Most people already have an income annuity and don't realize it: Social Security is, essentially, an income annuity run by the government. You pay your Social Security taxes during your working years, and, in return, you receive government-guaranteed income for life. Private income annuities work much like Social Security does, but with a range of pricing options and features. As with anything you buy, the keys to finding a good annuity are to shop around, find the best price, and buy only what you need.

There are several types of income annuities. A SPIA starts paying you within a year of purchase. A DIA lets you buy income today that begins at a date you choose. A QLAC works like a DIA but is purchased inside a tax-advantaged retirement account and must begin payments no later than age 85. You can also choose income that lasts for your life only or income that continues for a spouse, which can be helpful for couples.

Annuities are especially useful when guaranteed income, like Social Security or a pension, doesn't fully cover essential expenses. They can be particularly valuable for retirees with longer life expectancies, larger late-life portfolio drawdowns, or a lower tolerance for market risk. Annuities create a paycheck-like income stream, helping simplify budgeting and reducing the need for conservative withdrawal strategies. A steady monthly payment provides structure around withdrawals, reducing the need to make frequent adjustments based on inevitable market movements.

¹³ This discussion focuses on annuities designed to provide steady, predictable income and does not cover other types of annuities primarily intended for growth or variable payments.

¹⁴ Annuity payments are guaranteed by the insurance company and are subject to the insurance company's ability to pay, therefore it is important to check the insurance company's financial health before purchasing an annuity. Other payout options, such as a term of years, may be available as well.

Like any financial tool, annuities come with trade-offs. Once purchased, the funds used to purchase the annuity are generally no longer available for emergencies or to pass on to heirs, so it's important to balance desired income with the need for future liquidity. Payments may also lose value over time without inflation protection. Optional features like cost-of-living adjustments and return-of-premium features can help, but they usually reduce the starting payout due to higher costs. Therefore, annuities may not be appropriate for those with lower spending needs, shorter life expectancies, or a strong desire for flexibility.

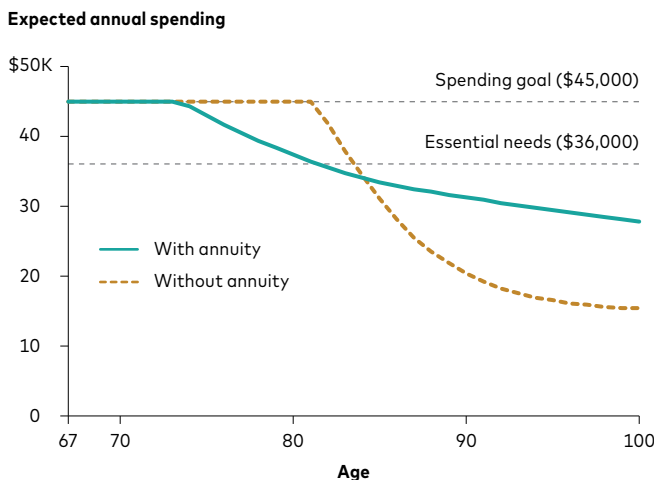
When these trade-offs are acceptable, however, annuities can play a valuable role. **Figure 6a** shows the impact of an income annuity on lifetime spending in a typical market. In this example, a retiree has a portfolio worth \$500,000 and an annual spending goal of \$45,000. She receives around \$15,000 in Social Security benefits each year, so she needs approximately \$30,000 from her portfolio—a 6% withdrawal rate—to meet her annual spending goal.

Because her withdrawal rate is on the high side, she may be forced to cut spending in her later years as she depletes her portfolio. By allocating 60% of her portfolio to a SPIA, the retiree spreads necessary spending reductions over a longer period, avoiding the sharp cuts seen in the portfolio-only approach. As a result, she is able to slow the pace of spending reductions over time, maintaining nearly 70% of her initial spending target—thousands more than without an annuity—even at age 100.

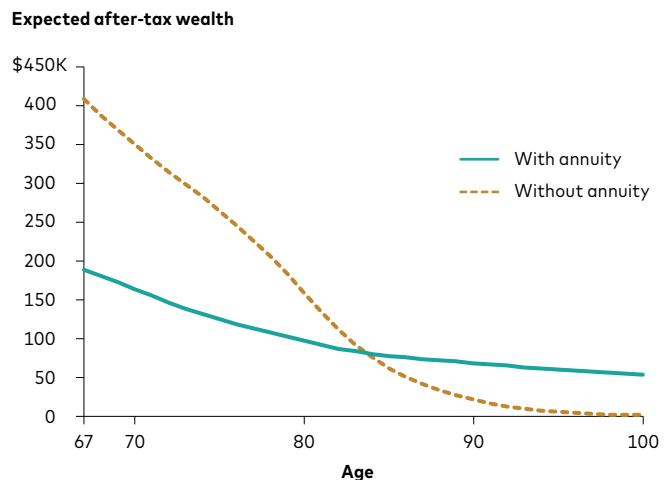
Figure 6b further shows that, although purchasing an annuity can reduce after-tax wealth initially, by around age 83 the retiree's wealth is higher with the annuity than without because the annuity's annual income reduces ongoing portfolio withdrawal needs. This example shows how annuities, when used strategically, may offer meaningful peace of mind by helping ensure most essential needs are covered throughout retirement.

FIGURE 6
Annuities can help maintain spending power throughout retirement

a. Expected annual spending with and without an annuity



b. Expected after-tax wealth with and without an annuity



Notes: The figures assume a 67-year-old female retiree with \$300,000 in a traditional IRA and \$200,000 in a taxable account, invested in a static allocation of 50% equities (60% U.S. and 40% international) and 50% bonds (70% U.S. and 30% international); in practice, the optimal asset allocation post-annuity purchase would likely have a larger equity allocation. The investor receives \$14,400 in annual Social Security benefits. Her spending target is \$45,000 each year, adjusted for inflation. With an annuity, the retiree allocates \$300,000 from the traditional IRA to a SPIA at an annuitization rate of 6.95%. At each age, the values shown represent the median outcome across 10,000 simulated market paths, all shown in today's dollars. Outcomes are generated using the Vanguard Financial Advice Model (VFAM), which incorporates long-term capital market and inflation projections from VCMM simulations run on February 28, 2026. These results are hypothetical, do not reflect actual investment performance, and are not guarantees of future outcomes.

Sources: Vanguard, using data from the SOA.

TAKE ACTION

Determine if an annuity might be right for you

If your essential expenses are not fully covered by guaranteed income:

- **Close the gap.** Use an annuity to secure income if essentials aren't fully covered by Social Security and pensions.
- **Think long term.** If you expect to live longer, a lifetime annuity can protect against outliving your savings.
- **Pick the right fit.** Need income now? Consider a SPIA. Want it later? Look into a DIA or QLAC.

If you find your withdrawal rate sustainable:

- **Prioritize flexibility.** If you have strong income and low withdrawal needs, you may not need more guaranteed income.
- **Consider partial annuitization.** Lock in some income while keeping the rest of your portfolio liquid and invested for growth.

For everyone:

- **Customize.** Consider options like inflation protection or death benefits, which can add value but reduce initial payouts.
- **Compare providers.** Shop around, assess your financial situation, and get advice before committing.

Continued employment

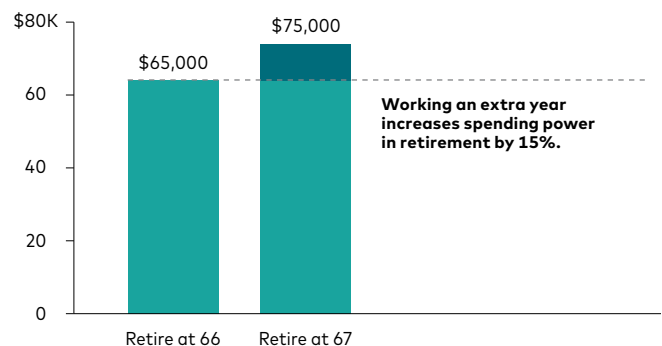
For those who are able to do so, staying in or returning to the workforce, either full-time or part-time, can be another way to make your savings last longer. Even a one-year delay in retirement can have a significant impact on your income. Working an extra year can increase your spending power in retirement, as shown in **Figure 7**, where the hypothetical investor increases her spending power by 15%.

So why does working longer help so much? It enables you to save more while withdrawing less of your savings, and it may allow you to delay Social Security, increasing your monthly benefit. Working longer may also provide access to health insurance, bridging the gap to Medicare or supplementing existing coverage. Beyond finances, for many people work provides structure, purpose, and social connections. Many retirees find that part-time roles offer a fulfilling way to stay active without the demands of a full-time job.

FIGURE 7

Delaying retirement can meaningfully lift spending ability

Annual spending amount



Notes: The figure assumes a female investor with \$450,000 in a traditional IRA, \$400,000 in a traditional 401(k), \$200,000 in a Roth IRA, and \$200,000 in a taxable account, invested in a static allocation of 50% equities (60% U.S. and 40% international) and 50% bonds (70% U.S. and 30% international). Annual spending is set at \$65,000. Social Security benefits are assumed to be claimed at FRA and worth \$1,900 per month. In the first scenario, the investor retires at age 66, and in the second scenario, she retires at age 67 after earning one more year of income at \$160,000. Account balances, pension income, asset allocation, and Social Security claiming assumptions are the same for both scenarios, but annual spending is increased to \$75,158 for the age-67 scenario. Outcomes are generated using the VFAM, which incorporates long-term capital market and inflation projections from VCMM simulations run on February 28, 2026. These results are hypothetical, do not reflect actual investment performance, and are not guarantees of future outcomes.

Source: Vanguard.

Home equity

Consider your home not just as a place to live, but as a financial tool. Tapping your home equity can help supplement income, reduce expenses, and manage financial risks later in retirement.

Options include downsizing to unlock equity and lower costs, using a home equity loan or line of credit for liquidity, and taking a reverse mortgage for structured access to funds without monthly repayments. Whether you keep your home or tap into its value, the key is to treat it as a strategic asset depending on your goals, housing needs, and family situation.

TAKE ACTION

Make the most of your home equity

- **Know your numbers.** Understand your home's value and how much equity you've built.
- **Downsize with purpose.** Moving into a smaller home can cut costs and unlock equity.
- **Explore liquidity options.** Learn the pros and cons of home equity lines of credit, home equity loans, and reverse mortgages.
- **Learn more.** For more information, see [Khang, McKinnon, and Rocha \(2023\)](#).



Make your wealth last

Once you've covered your essential spending needs, the next step is to focus on making your wealth last. In retirement, not everything is predictable—but many decisions are within your control. This principle focuses on the actions you can take to strengthen your financial position, build confidence, and improve flexibility.

We begin by addressing debt, which can weigh heavily on retirees' financial and emotional well-being (de la Fuente et al., 2026). From there, we explore how to extend portfolio life through tax management and smart withdrawal strategies. We also discuss protecting assets during life, through legal safeguards, and after, with estate and wealth transfer planning.

Together, these decisions can feel complex, and in some cases professional guidance can help bring clarity. No matter how you make these decisions, they can give you more control over how long your money lasts and who it will go to after.

Manage debt



Key takeaways

- Reducing debt in retirement can free up more of your income for what matters most and support greater peace of mind.
- Paying off high-interest debt, like credit cards and most unsecured loans, as soon as possible can increase long-term spending, flexibility, and wealth.
- Planning to gradually pay down other debts can help bring both financial clarity and peace of mind.

With income often less flexible in retirement, managing debt provides an opportunity to create more breathing room. Lower debt payments can increase spending flexibility, improve readiness for the unexpected, and support peace of mind as well as financial stability. Research shows that retirees who feel dissatisfied with their retirement are 2.6 times more likely to report feeling burdened by unmanageable debt compared with those who feel satisfied (Bearden, 2022).

We recommend starting by paying off high-interest debt, like credit cards and most other unsecured loans, as soon as possible. Investments will rarely earn a higher return than the interest charged on these loans, so paying them off not only reduces expenses today by eliminating monthly debt payments but can also increase future flexibility, spending, and wealth. Consider dipping into savings to pay off these loans, but be aware of potential early withdrawal penalties if drawing from tax-advantaged accounts.¹⁵ Once high-interest debts are paid off, you can move on to moderate-interest debts, like car loans, by making at least the minimum payments and focusing on higher-interest loans first to reduce interest costs faster.

You could also decide to pay off the smallest balance first and then work your way up to the largest balances. While this may not be the most cost-effective approach, some investors may place greater value on the emotional benefits of paying off a debt completely.

Regardless of your preferred payoff plan, it is always a good idea to review your outstanding debt rates and weigh the benefits of keeping cash on hand against the peace of mind that comes from being debt-free.¹⁶

TAKE ACTION

Build your debt payoff plan

- **Pay on time.** Pay debts on time to avoid fees and credit harm; set reminders or auto-pay.
- **Start with high-interest debt.** Paying it down first can be a quick way to cut interest costs.
- **Pick a prioritization approach.** Starting with the highest interest rates will save you more money in the long run, but paying off the smallest balances first may have a bigger emotional payoff.¹⁷

¹⁵ Withdrawals from tax-advantaged accounts taken prior to age 59½ are generally subject to a 10% early withdrawal penalty unless an IRS exception exists. Taxes may be due for any realized gains, pre-tax withdrawals, or nonqualified Roth withdrawals used to pay down debts. We recommend that you consult a tax or financial advisor about your individual situation. Review [IRS Publication 590-B](#) for more information on withdrawals.

¹⁶ See Costa and Felton (2024) for more information on how to prioritize high- and low-interest debt.

¹⁷ Note that while reducing debt during retirement helps most people increase their spending and wealth, for some high-net-worth individuals strategic debt assumption may help defer or avoid taxes and leave a larger legacy. Consider speaking with an advisor if you think this approach might be right for you.

Tax-efficient withdrawal order: Make the tax rules work for you



Key takeaways

- Different account types have different tax rules.
- By withdrawing from taxable accounts first, then tax-deferred accounts, and leaving tax-free accounts for last, you may lower your lifetime tax bill and increase your wealth.
- If you have only one account type, the sequence may not impact taxes as much—focus instead on your annual tax bracket and required minimum distributions (RMDs).

Because different account types follow different tax rules, it's worth thinking about which ones you tap first in retirement. In taxable accounts, for example, dividends and interest received, as well as gains on securities sold, are subject to taxes. Tax-deferred accounts, such as traditional IRAs and 401(k)s, don't get taxed while the money remains in the account, but any withdrawals are taxed as income.¹⁸ Finally, withdrawals from Roth accounts may be fully tax-free if certain conditions are met.¹⁹

Withdrawing from these accounts in the right order can lower your lifetime tax bills, allowing you to keep more of the money you've earned and extend the life of your portfolio. Our research shows that many retirees can achieve these results by withdrawing from taxable accounts first, then from tax-deferred accounts, and saving tax-free accounts for last.²⁰

Figure 8a, on the next page, illustrates how following this tax-efficient withdrawal order—taxable, tax-deferred, then tax-free—can reduce annual tax payments early in retirement by taking advantage of lower long-term capital gains rates instead of paying higher income tax rates on withdrawals from tax-deferred accounts, and **Figure 8b** shows how this approach can reduce cumulative taxes paid in retirement. In this example, using a tax-efficient withdrawal order reduces cumulative taxes paid by age 100 by about 14%.

This tax-efficient withdrawal order serves as a helpful starting place for most people but may not be ideal for everyone. The best withdrawal approach can vary based on your current and expected future tax situation, RMDs, and goals, including whether leaving assets to heirs is a priority. If you find determining the best withdrawal order too complicated, consider speaking with an advisor to review your situation and what the best withdrawal order for you might be.

Pro tip

If you have a large proportion of your savings in tax-deferred accounts, like traditional 401(k)s and IRAs, consider combining your withdrawal order plan with a Roth conversion strategy. See the "Use a Roth Conversion to Cut Your Lifetime Tax Bill" on page 24 for more details.

18 Qualified withdrawals from tax-deferred accounts are taxed as income, but nonqualified withdrawals may be subject to penalties. Review [IRS Publication 590-B](#) for more information on withdrawals.

19 Withdrawals from a Roth IRA are generally tax-free if you are over age 59½ and have held the account for at least five years; withdrawals of earnings taken prior to age 59½ or five years may be subject to ordinary income tax or a 10% federal penalty tax, or both. (A separate five-year period applies for each conversion and begins on the first day of the year in which the conversion contribution is made.) Review [IRS Publication 590-B](#) for more information on withdrawals.

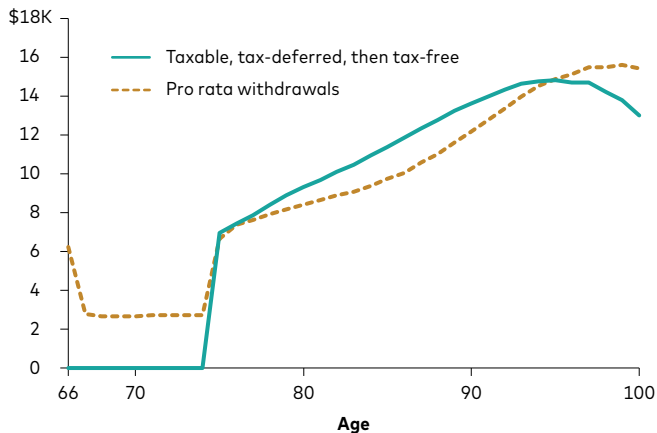
20 Based on research of Vanguard's Tax-Efficient Retirement Strategy. investor.vanguard.com/advice/tax-efficient-retirement-strategy.

FIGURE 8

A tax-efficient withdrawal strategy can help lower lifetime tax payments, boosting financial flexibility

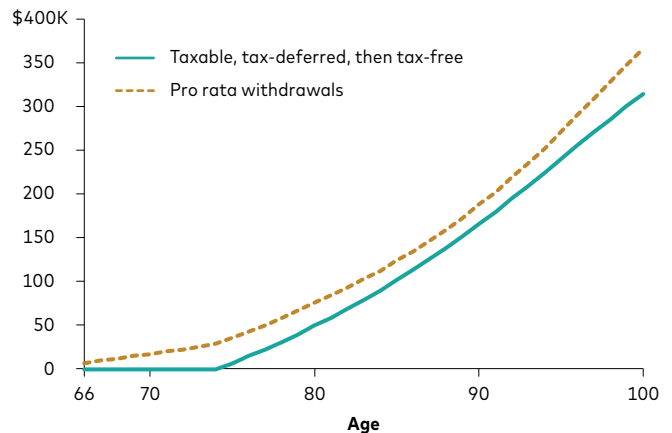
a. Median annual tax payments with and without a tax-efficient withdrawal strategy

Median annual tax payment amounts



b. Median cumulative tax payments with and without a tax-efficient withdrawal strategy

Median cumulative tax payment amounts



Notes: The figures assume a 66-year-old female investor with \$1,000,000 in a traditional IRA, \$250,000 in a Roth IRA, and \$750,000 in a taxable account, invested in a static allocation of 50% equities (60% U.S. and 40% international) and 50% bonds (70% U.S. and 30% international). The investor retires and claims Social Security at FRA, with an initial benefit amount of \$1,900 per month. The investor has a static annual spending target of \$75,000 in real terms. The figure compares annual and cumulative tax payments under two strategies: one that withdraws proportionally from all account types, and another that follows a tax-efficient sequence that withdraws from taxable accounts first, then tax-deferred accounts, and Roth accounts last. Outcomes are generated using the VFAM, which incorporates long-term capital market and inflation projections from VCMM simulations run on February 28, 2026. These results are hypothetical, do not reflect actual investment performance, and are not guarantees of future outcomes.

Source: Vanguard.

TAKE ACTION

Reduce your lifetime tax bill with smart withdrawal strategies

- Spend from taxable accounts first.** This will preserve the growth potential of your tax-advantaged accounts.
- Then use tax-deferred accounts.** Drawing from a traditional IRA or 401(k) next can help reduce your lifetime tax payments.
- Leave Roth accounts for last.** Waiting to draw from these accounts maximizes your flexibility and the power of tax-free compounding.

Use a Roth conversion to cut your lifetime tax bill



Key takeaways

- Moving money from a traditional IRA or 401(k) into a Roth IRA or 401(k) is known as a Roth conversion.
- With a Roth conversion, you pay income tax on the pre-tax amount converted, but your money grows tax-free once it's in the Roth account.
- Despite the higher up-front tax bill, well-planned Roth conversions can benefit you, your spouse, and your heirs.

When you move money from a traditional IRA or 401(k) into a Roth IRA or 401(k), that's called a Roth conversion. You pay income tax on the amount you convert, but once it's in the Roth account, that money grows tax-free—and you can take it out tax-free in retirement as long as you meet certain conditions.²¹ So why volunteer to pay more taxes sooner? Because timing is everything.

The years after you retire but before you must start taking RMDs (age 73 for most, or 75 for some), are often some of the lowest-income years of your retirement.²² That means you might be in a lower tax bracket, which makes it a great time to convert some of your traditional assets to a Roth account and lock in those lower tax rates. It's not just a niche strategy for savvy investors—our research has found that over 80% of investors can benefit meaningfully from Roth conversions as part of their overall retirement income plan.²³

Consider these key benefits that a Roth conversion strategy can bring to your retirement:

- 1. Smooth out your tax bill by reducing future RMDs.** By converting some assets to Roth each year, you can pay taxes at lower rates today and reduce the size of your RMDs later, which might otherwise push you into higher tax brackets.
- 2. Help your spouse.** If you're married, converting assets to Roth while you're both alive and filing jointly can help avoid higher taxes for a surviving spouse who will file as single later.
- 3. Leave a tax-free legacy.** Roth assets can be passed on to heirs free of income tax, as long as the account has been open for five years, which can be a big win under today's inheritance rules.²⁴

Pro tips

- **Consider Medicare income-related monthly adjusted amount (IRMAA) thresholds.** Converting too much to Roth in one year can push you into higher brackets for Medicare premiums. Plan conversions carefully to avoid unexpected costs.²⁵
- **Use taxable funds to pay taxes.** If possible, use money from a taxable account to cover your tax bill. This keeps more of your money in tax-advantaged accounts, allowing those assets to continue growing efficiently (Passman, Wong, and Dickson, 2025).

²¹ Assuming no after-tax basis, the entire amount converted is taxable. If after-tax contributions are held in a traditional 401(k) or IRA, the taxable amount is reduced by the pro rata share of after-tax basis. There are a few rules for Roth withdrawals to be considered entirely tax-free. First, for Roth IRAs, the investor must (1) have had at least one Roth IRA open for at least five calendar years and (2) be older than 59½ to avoid taxes on any account earnings; a similar rule applies to employer plans, such as a 401(k), but the five-calendar-year rule applies to each plan, rather than across all plans. Second, if Roth conversions have been completed (IRA or employer plan), each conversion has a separate five-calendar-year period before the conversion amount is exempt from penalties; this is waived once the investor reaches age 59½.

²² RMDs begin at age 73 for individuals born between 1951 and 1959 and at age 75 for those born in 1960 or later. For more information about planning for RMDs, see "Making the Most of Your RMDs" on page 32.

²³ Based on research of the client base of Vanguard's Tax-Efficient Retirement Strategy. investor.vanguard.com/advice/tax-efficient-retirement-strategy.

²⁴ Roth assets are still included in the gross estate. Federal lifetime gift and estate tax exemptions for 2026 are \$15 million per individual and \$30 million per couple. Certain states have estate and inheritance tax rules which should be reviewed and considered.

²⁵ There is a two-year lookback for IRMAA calculations. For example, 2026 IRMAA determinations are based on 2024 tax information. While recalculations can be made for certain life-changing events, Roth conversions are not considered one of these.

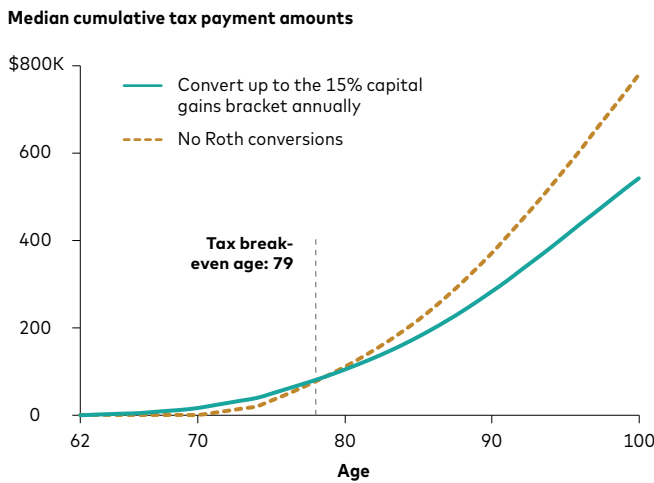
Roth conversions can improve your tax outlook in the long term. Investors may face higher taxes during the conversion years, as shown in **Figure 9a**, but those costs are often offset soon after the start of RMDs. Many investors begin to see cumulative tax savings by around age 80. The

financial benefit, however, goes beyond taxes—tax-free compounding in Roth accounts can lead to greater net wealth compared with a no-conversion approach. This additional wealth can begin to emerge as early as the start of the conversion period, as shown in **Figure 9b**.

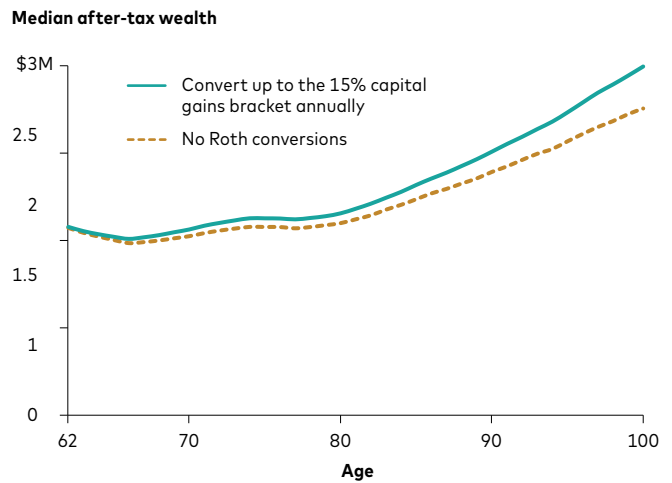
FIGURE 9

A Roth conversion strategy can help reduce tax payments and increase wealth

a. Cumulative tax payments with and without a Roth conversion strategy



b. After-tax wealth with and without a Roth conversion strategy



Notes: The figures assume a 62-year-old female investor with \$1,500,000 in a traditional IRA and \$500,000 in a taxable account, invested in a static allocation of 50% equities (60% U.S. and 40% international) and 50% bonds (70% U.S. and 30% international). The investor retires and claims Social Security at FRA, with an initial benefit amount of \$1,900 per month. The investor has a static annual spending target of \$65,000 in real terms. The strategy modeled includes threshold-based Roth conversions starting at age 62 and continuing until the long-term capital gains tax rate on taxable assets reaches 15%. Outcomes are generated using the VFAM, which incorporates long-term capital market and inflation projections from VCMM simulations run on February 28, 2026. These results are hypothetical, do not reflect actual investment performance, and are not guarantees of future outcomes.

Source: Vanguard.

TAKE ACTION

Plan your Roth conversion strategy

- Time it right.** Convert assets to Roth during lower-income years—often between the start of retirement and when RMDs begin—to take advantage of lower tax rates.
- Pace yourself.** Spread conversions over several years to avoid big tax increases.
- Convert strategically.** Balance short-term tax costs with the long-term benefits, such as reducing future RMDs, helping a surviving spouse avoid higher single-filer rates, and leaving heirs a tax-free legacy.

Dynamic spending: Flex with the market, stay on track



Key takeaways

- Dynamic spending is a strategy that adjusts how much you spend each year based on the performance of your portfolio.²⁶
- In years where your portfolio is down, you spend a bit less. In years where your portfolio is up, you spend a bit more.
- Dynamic spending can help you avoid selling assets during poor markets, enjoy more during good markets, and potentially avoid larger spending cuts later in life.

Once you have established your spending goal and a tax-smart withdrawal order, the next upgrade is flexibility. While you can't control whether markets rise and fall, you can choose how to respond. That includes adjusting your spending based on how your portfolio is performing. This is called a dynamic withdrawal strategy, or dynamic spending. Dynamic spending adds flexibility by adjusting how much you spend based on your available assets, helping retirees adapt to present-day conditions while keeping long-term sustainability in mind. If you make the same withdrawals regardless of how the market is performing, you increase the risk of draining your portfolio faster than expected.

With dynamic spending, you base your withdrawal amounts on market performance. You might give yourself a small raise when markets are strong and tighten spending a little when they're weak. This helps you avoid selling at bad times, enjoy more in good times, and reduce

the risk of bigger cutbacks later. For example, if your portfolio value increased by 10% over the prior year, you might boost your withdrawal amount by as much as 5%. On the other hand, if your portfolio value dropped by 10%, you might cut your planned withdrawals by as much as 2.5%.

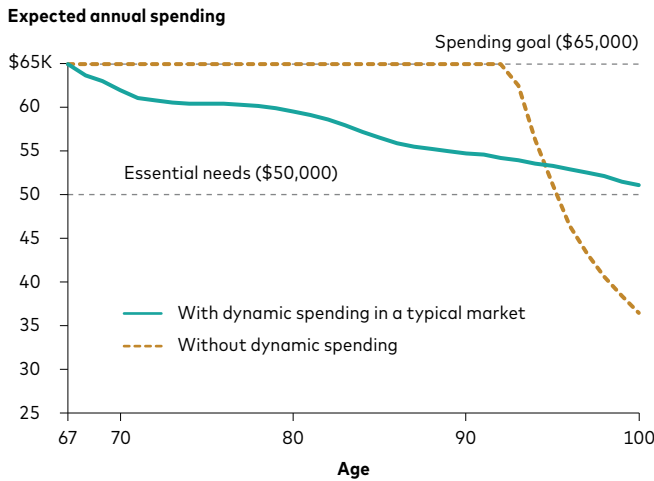
Figure 10a, on the next page, illustrates how this dynamic approach affects annual spending in different simulated market conditions. In one scenario, the retiree does not use a dynamic spending approach and instead withdraws the same amount every year from age 67 to 92, at which point she must make significant spending cuts. In the other scenario, she uses dynamic spending, which preserves her retirement savings for longer periods, safeguarding her from steep spending cuts later in life. Dynamic spending also raises her chance of spending more in strong markets while still having higher after-tax wealth through age 100, as shown in **Figure 10b**.

²⁶ Dynamic spending can be a helpful way to make retirement income last through changing market conditions, but it can be more complex than other spending approaches. Readers who want help understanding how these ideas apply to their own situation, or who are interested in putting a dynamic spending approach into practice, may benefit from working with a financial professional who can provide guidance tailored to their needs and objectives.

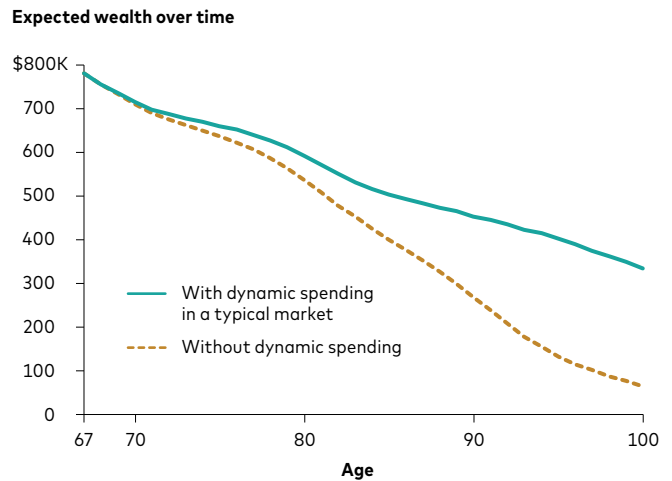
FIGURE 10

Dynamic spending can help avoid steep spending cuts and preserve savings

a. Expected annual spending in retirement with and without dynamic spending



b. Expected wealth in retirement with and without dynamic spending



Notes: The analysis assumes a 67-year-old female retiree with \$800,000 in a traditional 401(k) and \$200,000 in a taxable account invested in a static allocation of 50% equities (60% U.S. and 40% international) and 50% bonds (70% U.S. and 30% international). The investor receives \$21,080 in annual Social Security benefits. Her real annual spending target includes \$50,000 in essential expenses and \$15,000 in discretionary expenses. Without dynamic spending, the investor maintains a fixed real spending target adjusted only for inflation. With dynamic spending, the investor's spending target adjusts based on historical portfolio performance, with annual increases capped at 5% and decreases capped at 2.5%. All results shown are in today's dollars. Outcomes are generated using the VFAM, which incorporates long-term capital market and inflation projections from VCMM simulations run on February 28, 2026. These results are hypothetical, do not reflect actual investment performance, and are not guarantees of future outcomes.

Sources: Vanguard, using data from the SOA.

TAKE ACTION

Implement a dynamic spending strategy

- **Adapt spending when markets shift.** Make spending adjustments to help your money last longer through market ups and downs.
- **Set guardrails.** Decide in advance how much you're willing to adjust spending each year based on market performance. For example, you might cap annual increases at 5% and decreases at 2.5%.
- **Review annually.** Check in once a year to see how your portfolio is doing and whether your spending plan needs an update.

Protecting your assets: Plan ahead for peace of mind



Key takeaways

- A financial power of attorney (POA) can help ensure your wishes are protected even if you're no longer capable of making sound decisions.
- There are two types of financial POAs: durable and springing, and each has its own advantages and disadvantages.
- A financial POA can help prevent fraud, reduce the risk of financial mistakes, and ensure your bills and assets are handled the way you intended.

As we age, it's natural to think about how to protect what we've built throughout our lives. One of the most powerful—and often overlooked—ways to do that is by establishing a financial POA, which is a binding legal document that allows you to appoint someone (known as the agent or attorney-in-fact) to have access to and oversight over your financial affairs.

Cognitive decline can develop gradually or come as a surprise, which is why putting a financial POA in place early can offer real peace of mind. When you choose someone you trust as your agent while you're fully able to make decisions, you help ensure your wishes are protected whatever the future brings. Waiting too long could result in legal proceedings, adding stress at an already difficult time. Taking this step proactively is a simple way to stay in control and make things easier for yourself and your loved ones.

There are two primary types of financial POAs: a durable POA, which allows the agent to begin acting on your behalf immediately, and a springing POA, which only allows action if it's needed later. Both types can help prevent fraud, reduce the risk of financial mistakes, and ensure your bills and assets are handled the way you intended.²⁷

Another option to consider is adding a trusted contact to your relevant investment accounts. Think of it like adding an emergency contact who can be reached if there are concerns about unusual account activity or your well-being. A trusted contact doesn't have authority to view your account or make transactions, but it is someone your provider can call to verify your contact information or check on you if concerns arise, helping protect you and your assets. This could be the same person you choose as your agent or someone else that you trust.

TAKE ACTION

Protect your assets

- **Identify an authorized person.** Pick someone you trust who is responsible, financially savvy, and willing to act in your best interest.
- **Make it official.** Work with an attorney to create a durable or springing financial POA to ensure your chosen person can act on your behalf.
- **Communicate your wishes.** Talk to your agent about your values and preferences, and review documents regularly.

²⁷ See Costa and Felton (2024) for information on other types of POAs and other documents that you may consider establishing.

Estate and wealth transfer: Planning with purpose



Key takeaways

- Estate planning isn't only for the wealthy—it's for anyone who wants to make sure their assets go where they want them to.
- Proper account titling and beneficiary designations can affect how much your heirs receive.
- If federal estate taxes may apply to you, we recommend consulting with an estate planning professional.

Estate planning helps make sure your assets go where you want them to, in a way that's clear, intentional, and efficient. That means balancing legal, tax, and emotional priorities. Giving does not have to wait until the end of your life, and it can be thoughtfully structured while you're alive to help children, grandchildren, or charitable causes in meaningful ways.

The first step is making sure your assets transfer smoothly to the people or causes you care about. That usually means having a will, naming beneficiaries, and setting up the right ownership structures. Trusts can also play a key role, especially if you want to provide structure and oversight for inherited assets. A complete estate plan often includes a living will, POAs for health care and finances, and a clear list of your accounts and advisors to help ease the probate process.

Next, review your account titling and beneficiary designations. How you pass on assets can affect how much your heirs receive. For example, adding someone as a co-owner might make the transfer easier—but it could also eliminate the step-up in cost basis, leading to higher taxes if they sell.

Inherited retirement accounts like IRAs come with their own rules. These accounts generate income in respect of a decedent, which means your heirs will owe income tax on withdrawals.

For those who want to leave a bequest, naming a qualified charity as a beneficiary can be a way to remove assets from the taxable estate and avoid taxation entirely. Smart beneficiary designations can help maximize the after-tax value of what you leave behind.

Finally, you need to know if estate taxes will apply to you. Most people won't owe federal estate or gift taxes; as of 2026, you can transfer up to \$15 million per person (\$30 million per couple) without triggering these taxes.²⁸ But if your estate is above that threshold, the tax bite can be steep: a flat 40%—higher than the current top income tax rate—on anything above the exemption. If you're near or over the limit, estate tax planning becomes a top priority and is likely to influence how you approach retirement income, gifting, and charitable strategies. In that case, you may want to work with an estate planner to create a personalized plan for your situation.

TAKE ACTION

Plan with purpose

- **Start with the basics.** Arrange your will, beneficiary designations, and POAs.
- **Think beyond the paperwork.** Consider how taxes, ownership structures, and account types affect what your heirs receive.
- **Adjust as needed.** Review your plan after major life changes and consult professionals.

²⁸ Certain states have estate and inheritance tax rules that should be reviewed and considered.



The simpler your financial life is, the easier it is to stay on track and focus on the things that matter most. In this section, we share practical ways to make your day-to-day money management feel lighter, including consolidating assets, setting up spending accounts, and using automated services for RMDs and withdrawals.

Consolidate assets

Many retirees have assets spread across different accounts and institutions, like 401(k) plans from various jobs, IRAs, and other savings accounts. While there's nothing inherently wrong with maintaining multiple accounts with different providers, it does make managing your money more complex and potentially more costly. This is especially true when using strategies like tax-efficient withdrawals and Roth conversions, and it can complicate RMD calculations as well. Having several accounts can also make it more difficult to keep track of how much your assets are worth and potentially create further challenges for heirs. Consolidating accounts with a single provider can alleviate much of this complexity and make your financial life easier to manage.²⁹

Create a spending fund



Key takeaways

- Establishing a spending fund can make meeting near-term expenses easier and more convenient.
- We recommend keeping a spending fund with 12 months' worth of planned portfolio withdrawals in a readily accessible high-yield savings account or money market vehicle.
- You may decide you want a larger spending fund, but balance convenience and peace of mind with long-term wealth preservation.

Once you retire, your paycheck stops, but your bills don't, and unexpected expenses can still pop up. To cover near-term spending needs, it's often recommended to set aside a spending fund in a readily accessible high-yield savings account or money market vehicle. This helps you meet near-term expenses without having to sell investments and transfer money every time you need cash. (Note that a spending fund, which holds cash for everyday expenses, differs from a contingency fund, which is invested and set aside for emergencies, as discussed in "Estimate Your Retirement Expenses" on page 5.)

To help maintain your spending fund, you can redirect interest and dividends from your investments to your spending fund instead of reinvesting them. This provides a simple, efficient way to replenish your spending fund and reduce the need for additional investment sales. If interest and dividends are not sufficient to fully replenish your fund throughout the year, picking a certain time of year (like each January) or a regular frequency (like quarterly) to sell investments can be an effective way to maintain your desired balance

²⁹ While consolidating assets may simplify your finances, it's important to consider the potential trade-offs. For example, it is important to understand how insurance coverage limits may apply across different account types and institutions and to coordinate appropriately. Also, when transferring money from a 401(k) to an IRA, costs and legal protections may be different. Consider consulting an advisor if you're unsure what is best for you.

without needing to trade overly frequently. For more hands-on or savvy investors, opportunistically harvesting losses can also be a way to boost tax efficiency while replenishing your spending fund.³⁰

However, there's a trade-off. While maintaining a cash reserve can help meet day-to-day expenses and provide peace of mind, holding too much cash in relatively low-yielding accounts can limit your portfolio's long-term growth. **Figure 11** illustrates how this cash drag can affect wealth over time. Our research shows that the larger the spending fund, the lower an investor's projected lifetime wealth tends to be. We generally recommend a spending fund equal to about 12 months of planned portfolio withdrawals as a balanced approach—large enough to offer stability and convenience without sacrificing potential long-term growth.

Still, retirement isn't only about efficiency; it's also about feeling secure. Many retirees find comfort in knowing they have plenty of cash on hand. A thoughtfully sized spending fund can act as a buffer, offering both flexibility and peace of mind so you can focus more on living your retirement and less on managing it.

Whatever size your spending fund is, make sure you're getting a competitive yield on your money to minimize cash drag. Ultimately, the key is finding the right balance for you between convenience, security, and long-term wealth preservation.

TAKE ACTION

Set up your spending fund

- **Put money in a safe place.** Put 12 months' worth of portfolio withdrawals—or more, if you prefer—into an account that is safe and easy to access but still offers a good yield, such as a high-yield savings account or money market fund.
- **Keep it topped off.** Redirect interest and dividend payments to your spending fund to help reduce the need to sell investments.
- **Avoid holding too much.** Holding excess cash can reduce long-term wealth. Find the right balance between emotional security and financial efficiency.

FIGURE 11
Projected lifetime wealth by spending fund strategy



Notes: The projection assumes a starting portfolio wealth of \$250,000 at age 60 and annual portfolio withdrawals of \$20,000. Portfolio returns are assumed to be 6% annually and cash returns are assumed to be 2% annually. This hypothetical illustration does not represent the return on any particular investment, and the rate of return is not guaranteed.

Source: Vanguard.

30 Tax-loss harvesting involves certain risks, including, among others, the risk that the new investment could have higher costs than the original investment and could introduce portfolio tracking error into your accounts. There may also be unintended tax implications. We recommend that you consult a tax advisor before taking action.

Making the most of your RMDs



Key takeaways

- RMDs—required withdrawals from tax-deferred accounts—begin at age 73, or 75 for those born in 1960 or later.
- Tax penalties apply if you fail to take an RMD.
- Many financial institutions offer free, automated services that calculate and distribute your RMD, which can help you avoid missing one.

Once you hit age 73, or 75 if you were born in 1960 or later, the IRS says it's time to start taking money out of your tax-deferred retirement accounts like traditional IRAs and 401(k) plans. These mandatory withdrawals are called required minimum distributions, or RMDs. The amount you must withdraw each year is based on your year-end account balance and life expectancy. Miss an RMD, and you could face a hefty tax penalty.³¹

Consider RMDs as more than just a rule to follow, but as a key part of your retirement income plan. Here's what we recommend for most retirees:

- **Don't treat RMDs as an afterthought.** Coordinate your RMDs with other income sources—like Social Security or Roth conversions—to help manage your tax brackets and keep your plan on track.
- **Automate to stay on top of it.** Many financial institutions offer free services that calculate and distribute your RMD each year. Signing up for an RMD service can be a simple way to help you stay compliant.
- **Use RMDs to rebalance your portfolio.** Need to trim back on stocks or bonds? Use your RMDs to do it. That way, you're meeting your withdrawal requirement and keeping your investments aligned with your goals.

Pro tip

Qualified charitable distributions

If charitable giving is part of your retirement plan, a qualified charitable distribution (QCD) offers a tax-smart way to give. Once you reach age 70½, you can donate up to \$111,000 per year directly from a traditional IRA to a qualified charity, as of 2026. (This limit is indexed for inflation.) The donation can count toward your RMD but isn't included in your adjusted gross income (AGI)—making it especially valuable for retirees who don't itemize deductions or want to reduce the tax impact of RMDs.

Using a QCD to keep an RMD out of your AGI, rather than taking the RMD as income, can provide a powerful mechanism to potentially lower taxes on Social Security, reduce Medicare surcharges, and, more broadly, ease tax burdens when planned appropriately. If you're using a QCD, be sure that the funds go directly to the charity, and consult a tax advisor to ensure everything is handled correctly.³²

TAKE ACTION

Prepare for RMDs

- **Know the rules.** Understand your RMD deadlines to avoid penalties and tax surprises.
- **Automate RMDs.** Use an automatic service and use RMDs to rebalance your portfolio.
- **Consider QCDs.** If charitable giving is part of your plan, consider QCDs as a tax-smart way to donate.

³¹ The penalty for failing to take a required RMD is 25% of the amount that should have been withdrawn. The penalty may be reduced to 10% if the shortfall is corrected in a timely manner.

³² For more information on QCDs, see Weber (2026).

Automate and adjust: Withdrawal options that work for you

Managing your retirement income doesn't have to mean juggling transfers or guessing how much to take out each month. One helpful tool available in many IRAs and employer plans is an automated withdrawal service, which lets you set up regular payments so your savings arrive in retirement, much like a paycheck does for someone who's still working.

You can choose the amount and frequency—monthly, quarterly, or annually—and the service handles the rest, making it easier to stick with your spending plan and avoid emotional, last-minute decisions. By automating the day-to-day details, you can free yourself to focus on the things that really matter, like regularly revisiting your goals, market conditions, and spending needs.

TAKE ACTION

Take advantage of automated withdrawals

- **Get regular payments.** Automated withdrawals function like a paycheck in retirement.
- **Set a schedule.** Decide how often you want to receive payments and how much you'll need to cover your expenses.
- **Coordinate your tax strategy.** Make sure your withdrawal plan aligns with your broader tax strategy, including RMDs and Roth conversions.

Conclusion

Your last day of work is a major milestone. It is both a culmination of your years of effort and the beginning of what comes next. Retirement is a long journey, and its path—and success—is shaped by a series of thoughtful decisions you make as life moves forward.

This guide offers four principles to help you make informed, confident choices at every stage of that journey:

- 1. Start with purpose.** Ground your plan in what truly matters to you.
- 2. Cover the essentials.** Create a reliable foundation that protects your standard of living.
- 3. Make your wealth last.** Support flexibility and resilience when markets or circumstances change.
- 4. Simplify.** Make your life easier to manage so you can focus on enjoying it.

These principles lay a strong foundation, though factors like volatile markets and complicated tax decisions can still feel overwhelming. In those moments, working with a financial advisor can help you understand how these principles apply to your situation, clarify difficult decisions, and provide support as your needs change.

Together, a clear plan, disciplined habits, and the right level of support can help turn your hard-earned retirement savings into a sustainable retirement income plan. That combination can make your retirement feel not only more secure, but more manageable and peaceful over time.

Case studies

Real-life applications of the principles

This section features five case studies inspired by real-life national survey data on American retirees to show how our four principles for retirement income can work in practice. Each case study reflects unique life and financial circumstances, as summarized in **Figure 12**. By using the Vanguard Financial Advice Model (VFAM), we show how applying strategies based on our principles—including delaying retirement,

converting assets into income, and using tax-smart portfolio withdrawals—can lead to better retirement outcomes.³³

These case studies are hypothetical examples and may not apply to your individual circumstances. We encourage you to explore the ones that are most similar to your situation and consider which strategies may be relevant to you.

FIGURE 12
Demographic snapshot of case studies

	Pre-retirees		Retirees		
	Noel	Raj and Rani	Susan	Pete and Pate	John and Jane
Age	59	Both 58	75	Both 72	Both 68
Marital status	Single	Married	Single	Married	Married
Portfolio wealth	\$56,000	\$464,000	\$119,000	\$358,000	\$5,100,000
Annual income	\$50,000	\$185,000	\$20,000	\$36,000	\$27,000
Annual spending	\$35,000	\$85,000	\$29,000	\$56,000	\$124,000
Recommended strategies	<ul style="list-style-type: none"> Continued employment Dynamic spending Social Security deferral 	<ul style="list-style-type: none"> Roth conversion Tax-efficient withdrawal order 	<ul style="list-style-type: none"> Annuity Dynamic spending 	<ul style="list-style-type: none"> Annuity Dynamic spending Home equity 	<ul style="list-style-type: none"> Roth conversion Tax-efficient withdrawal order

Notes: Annual income includes Social Security, pensions, and any earned income; investment income is not included. Values are rounded for presentation; unrounded values can be found in the “Notes” sections under Figures 13–17. See Appendix 4 on page 50 for details on how we calculated the characteristics for these case studies using HRS survey data and a cluster analysis method.

Sources: Vanguard, using 2021 data from the RAND HRS CAMS.

³³ The VFAM is our proprietary simulation framework that uses client-specific data, market uncertainty, and life expectancy to evaluate how different strategies may affect lifetime spending and wealth. See Appendix 1 on page 47 for more details.

Case 1: Noel, a 59-year-old pre-retiree

Delaying retirement for two years enables an additional 20 years of essential spending.

Noel's profile highlights	
Household	Individual planning to retire at age 67
Current income	\$50,000 per year
Current savings	\$56,000 (\$38,000 tax-deferred)
Projected savings	\$120,000 at retirement
Social Security	\$21,000 per year, to be claimed at age 67
Spending goal	\$35,000 (\$28,000 essential) per year, adjusted for inflation
Portfolio withdrawal needs	\$14,000 per year (12% of projected retirement savings)

Note: Values are rounded for presentation; unrounded values can be found in the Notes section under Figure 13.

As it's currently structured, Noel's plan allows him to sustain his target spending for about 10 years only. He'll need to begin cutting his spending at age 72, and by age 75 he will no longer be able to meet his essential expenses. By age 90, he will be left with only his Social Security income of about \$21,000 per year. Noel wants to avoid such a sharp reduction in his spending and is especially concerned about being unable to meet his essential expenses later in life.

Recommended strategies	Why
1 Work two years longer.	Working longer keeps assets invested for more time, supporting a longer stream of portfolio spending.
2 Use dynamic spending after age 72.	Dynamic spending helps extend the life of the portfolio by reducing withdrawals under poor market conditions.
3 Delay Social Security claiming by two years.	Delaying Social Security locks in a higher amount of inflation-protected income.

Figure 13a shows Noel's projected spending, and **Figure 13b** shows his after-tax wealth with and without the recommended strategies.

Impact of recommended strategies:

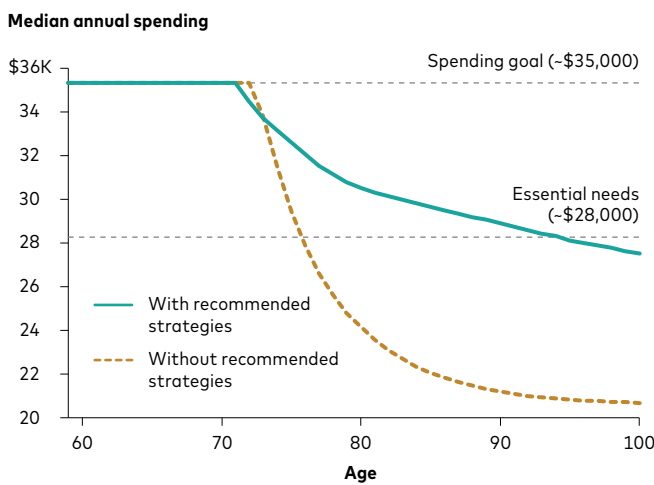
- In both scenarios, Noel is able to meet his desired spending only until approximately age 72.

- Without the recommended strategies, Noel can no longer meet his essential expenses by age 75. With the recommended strategies, he still begins cutting back after age 72, but far less sharply, and he can meet his essential expenses until age 95.
- Noel's wealth is also higher throughout his lifetime with the recommended strategies.

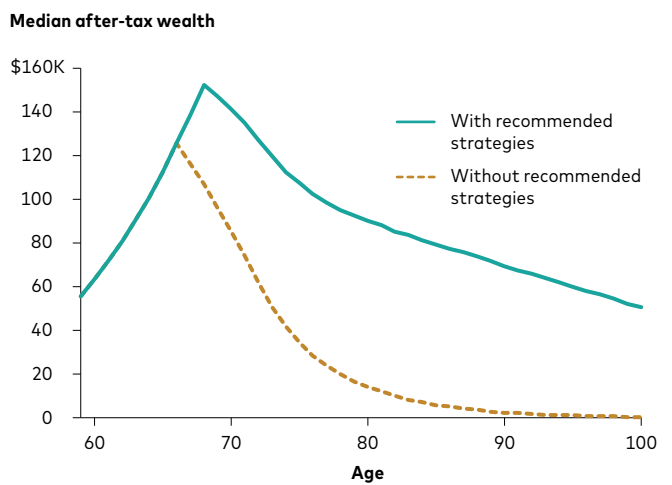
FIGURE 13

The recommended strategies help Noel meet his spending goals and avoid major cutbacks

a. Noel's projected spending with and without the recommended strategies



b. Noel's projected after-tax wealth with and without the recommended strategies



Notes: The analysis assumes a 59-year-old male pre-retiree with \$37,586 in a traditional 401(k) and \$18,724 in a taxable account, invested in a static allocation of 50% equities (60% U.S. and 40% international) and 50% bonds (70% U.S. and 30% international). His current annual salary is \$49,572. His real annual spending target includes \$28,282 in essential expenses and \$7,071 in discretionary expenses. Without the recommended strategies, the investor retires and claims Social Security at FRA with an initial monthly benefit of \$1,717, and he maintains a fixed real spending target adjusted only for inflation. With the recommended strategies, the investor delays retirement and Social Security claiming by two years, to age 69; beginning at age 72, his spending target adjusts based on historical portfolio performance, with annual increases capped at 5% and decreases capped at 2.5%. At each age, the values represent the median outcome across 10,000 simulated market paths, with all results shown in today's dollars. Outcomes are generated using the VFAM, which incorporates long-term capital market and inflation projections from VCMM simulations run on February 28, 2026. These results are hypothetical, do not reflect actual investment performance, and are not guarantees of future outcomes.

Source: Vanguard.

Case 2: Raj and Rani, 58-year-old pre-retirees

Tax-efficient strategies help lower tax bills and increase wealth.

Raj and Rani's profile highlights	
Household	Married couple planning to retire at age 67
Current income	\$185,000 per year
Current savings	\$464,000 (\$287,000 tax-deferred)
Projected savings	\$1.2 million at retirement
Social Security	\$63,000 per year combined
Spending goal	\$85,000 per year, adjusted for inflation
Portfolio withdrawal needs	\$22,000 per year (1.8% of projected retirement savings)

Note: Values are rounded for presentation; unrounded values can be found in the Notes section under Figure 14.

With their current plan, Raj and Rani are well-positioned to sustain their desired lifestyle throughout retirement. Still, they're exploring ways to stretch their savings further, both to prepare for potential long-term care costs and to leave a meaningful legacy for their loved ones.

Recommended strategies	Why
1 Convert tax-deferred assets to Roth up to the top of the 24% federal marginal tax bracket.	A Roth conversion may result in higher taxes earlier on but reduces the taxes paid over Raj and Rani's lifetime, resulting in higher wealth.
2 Withdraw from taxable accounts first, then tax-deferred, and save Roth for last.	Drawing from taxable accounts first allows tax-advantaged assets to grow for a longer period of time.

Figure 14a shows Raj and Rani's cumulative tax payments, and **Figure 14b** shows their after-tax wealth with and without the recommended strategies, showing how combining Roth conversions with a thoughtful withdrawal order can improve their long-term outcomes.

Impact of recommended strategies:

- While Raj and Rani's tax liability is higher in the early years due to the Roth conversions, their total lifetime tax bill is lower with the recommended strategies.

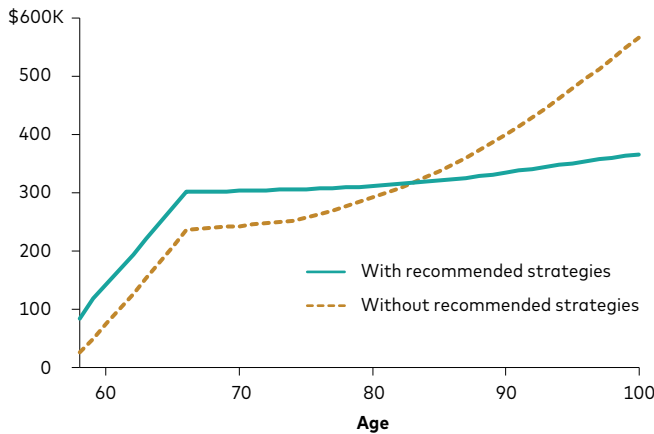
- By age 90, the recommended strategies will save them approximately \$66,000 in taxes, and by age 100, the tax savings grow to about \$200,000.
- Because of the tax savings, their after-tax wealth is also higher, by approximately \$150,000 at age 100.

FIGURE 14

The recommended strategies help Raj and Rani save on taxes and increase their long-term wealth

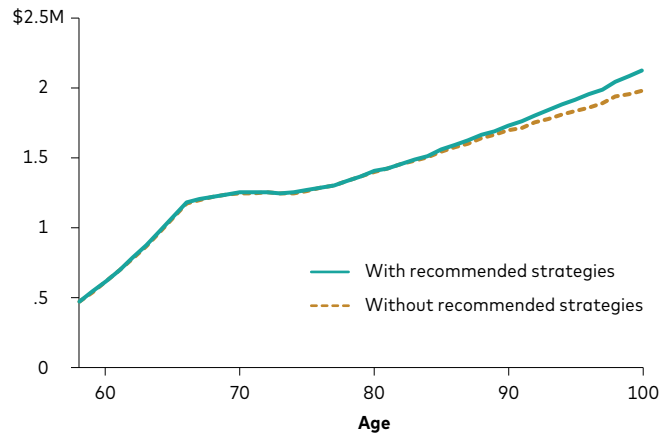
a. Raj and Rani's projected tax liability with and without the recommended strategies

Median cumulative tax liability



b. Raj and Rani's projected after-tax wealth with and without the recommended strategies

Median after-tax wealth



Notes: The analysis assumes a married couple, both age 58, with \$287,448 in a traditional 401(k) and \$176,594 in a taxable account, invested in a static allocation of 50% equities (60% U.S. and 40% international) and 50% bonds (70% U.S. and 30% international). The couple's combined annual salary is \$185,383, and their real annual spending target is \$85,142. Both spouses retire and claim Social Security at FRA, with a combined initial monthly benefit of \$5,254. Without the recommended strategies, the couple withdraws savings proportionately from each account based on account values at each point in time. With the recommended strategies, the couple follows a tax-efficient withdrawal sequence, drawing first from taxable accounts, then from tax-deferred accounts, and then Roth accounts; they also implement threshold-based Roth conversions beginning immediately and continuing until tax-deferred assets reach the top of the 24% federal marginal tax bracket. At each age, the values represent the median outcome across 10,000 simulated market paths, with all results shown in today's dollars. Outcomes are generated using the VFAM, which incorporates long-term capital market and inflation projections from VCMM simulations run on February 28, 2026. These results are hypothetical, do not reflect actual investment performance, and are not guarantees of future outcomes.

Source: Vanguard.

Case 3: Susan, a 75-year-old retiree

Susan can cover essential expenses for the rest of her life with additional guaranteed income and dynamic spending.

Susan's profile highlights	
Household	Retired individual
Current savings	\$119,000 (\$37,000 tax-deferred)
Social Security	\$20,000 per year
Spending goal	\$29,000 (\$24,000 essential) per year, adjusted for inflation
Portfolio withdrawal needs	\$9,400 per year (8% of current savings)

Note: Values are rounded for presentation; unrounded values can be found in the Notes section under Figure 15.

Under her current plan, Susan is expected to sustain her lifestyle for about 10 more years. However, starting at age 84, she would need to reduce spending significantly to avoid depleting her savings. As she continues to cut back beyond age 90, she is projected to fall short of covering essential expenses while relying almost entirely on Social Security. Susan's goal is to create a more stable income stream to cover her basic needs and preserve some savings in case she requires long-term care later in life.

Recommended strategies	Why
1 Convert tax-deferred savings into a SPIA.	Purchasing an annuity provides extra guaranteed income to support essential spending needs later in life. While Susan's net worth drops initially, the extra income reduces withdrawals from her portfolio, making it last longer and increasing her wealth.
2 Use dynamic spending.	Dynamic spending helps extend the life of the portfolio by reducing withdrawals under poor market conditions.

Figure 15a shows Susan's projected spending, and **Figure 15b** shows her after-tax wealth with and without the recommended strategies.

Impact of recommended strategies:

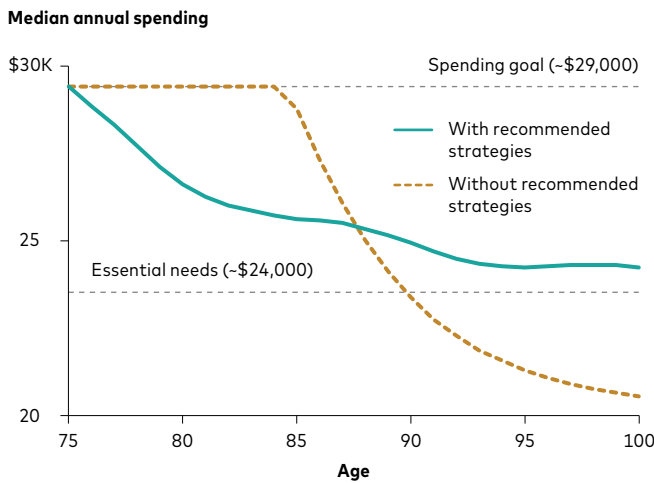
- While the recommended strategies lead Susan to spend more conservatively early in retirement, the combination of guaranteed income from an annuity and a dynamic spending strategy supports higher spending after about age 87.

- Without the recommended strategies, Susan will no longer be able to meet her essential spending needs by age 90. With the recommended strategies, Susan will be able to meet her essential spending needs to age 100 and beyond.
- Purchasing the annuity initially reduces Susan's wealth, but the additional income it provides enables her to draw down her portfolio more slowly, resulting in higher wealth by about age 83. By age 100, Susan's wealth is about \$35,000 higher than without the recommended strategies.

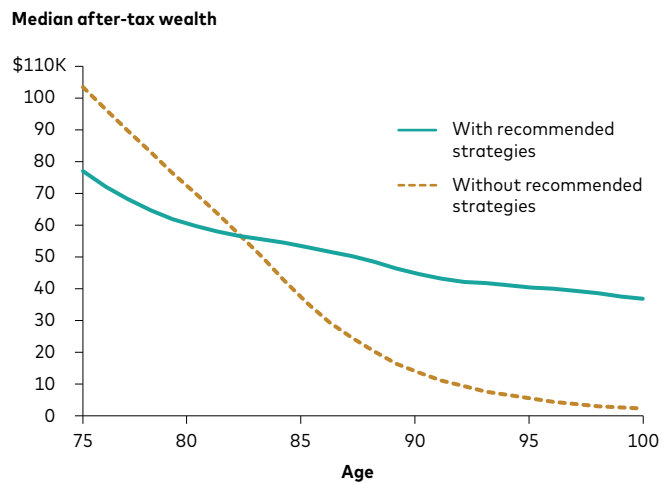
FIGURE 15

The recommended strategies help support Susan's spending and make her wealth last

a. Susan's projected spending with and without the recommended strategies



b. Susan's projected after-tax wealth with and without the recommended strategies



Notes: The analysis assumes a 75-year-old female retiree with \$36,781 in a traditional IRA and \$81,801 in a taxable account, invested in a static allocation of 50% equities (60% U.S. and 40% international) and 50% bonds (70% U.S. and 30% international). The investor receives \$19,977 in annual Social Security benefits. Her real annual spending target includes \$23,527 in essential expenses and \$5,881 in discretionary expenses. Without the recommended strategies, the investor maintains a fixed real spending target adjusted only for inflation. With the recommended strategies, her spending target adjusts based on historical portfolio performance, with annual increases capped at 5% and decreases capped at 2.5%. The investor also allocates her entire traditional IRA balance to a SPIA at an annuitization rate of 8.54%; this rate is based on the annuitization rate for Brighthouse Financial's Lifetime Income annuity product for a 75-year-old female as of May 15, 2026. At each age, the values represent the median outcome across 10,000 simulated market paths, with all results shown in today's dollars. Outcomes are generated using the VFAM, which incorporates long-term capital market and inflation projections from VCMM simulations run on February 28, 2026. These results are hypothetical, do not reflect actual investment performance, and are not guarantees of future outcomes.

Sources: Vanguard, using data from Brighthouse Financial.

Case 4: Pete and Pate, 72-year-old retirees

Extra income and flexible spending help them meet lifestyle goals for the rest of their lives.

Pete and Pate's profile highlights	
Household	Retired married couple
Current savings	\$358,000 (\$159,000 tax-deferred)
Social Security	\$36,000 per year combined, \$25,000 per year for surviving spouse
Spending goal	\$56,000 (\$38,000 essential) per year (reduced by 15% if one spouse passes away)
Portfolio withdrawal needs	\$20,000 per year (5.4% of current savings)

Note: Values are rounded for presentation; unrounded values can be found in the Notes section under Figure 16.

Since Pete and Pate plan to adjust spending after one of them passes away, their current plan can support the surviving spouse's lifestyle until about age 90. After that, however, the surviving spouse would need to reduce spending significantly—by more than half within a few years—to avoid running out of savings. Their primary goal is to ensure that their combined savings can support both the needs and wants of the surviving spouse. Pete and Pate are exploring ways to convert their assets into guaranteed income that support lifestyle goals for either spouse.

Recommended strategies	Why
1 Convert tax-deferred savings into a SPIA.	Purchasing an annuity provides extra guaranteed income to support essential spending needs later in life. While Pete and Pate's net worth drops at first, the extra income reduces withdrawals from their portfolio, making it last longer and increasing their final wealth.
2 Use dynamic spending.	Dynamic spending helps extend the life of the portfolio by reducing withdrawals under poor market conditions.
3 Tap into home equity.	Using home equity can generate additional income of \$15,000 each year, supporting Pete and Pate's spending for an extended period.

Figure 16a shows Pete and Pate's projected spending, and **Figure 16b** shows their after-tax wealth with and without the recommended strategies.

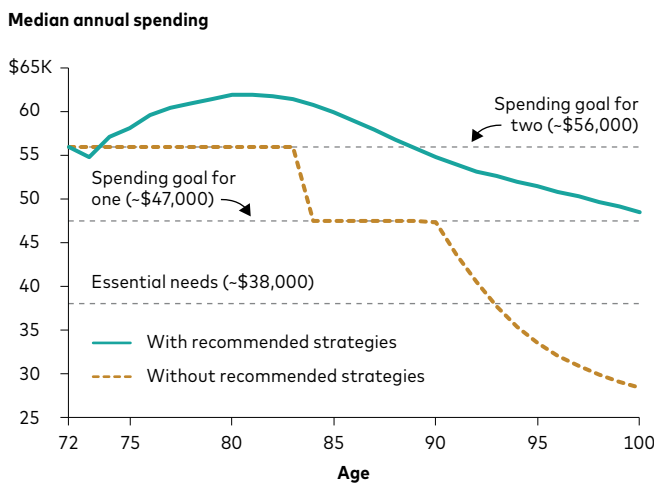
Impact of recommended strategies:

- Without the recommended strategies, Pete and Pate can meet their lifestyle goals as a couple until age 84, with the surviving spouse remaining on track until age 90.

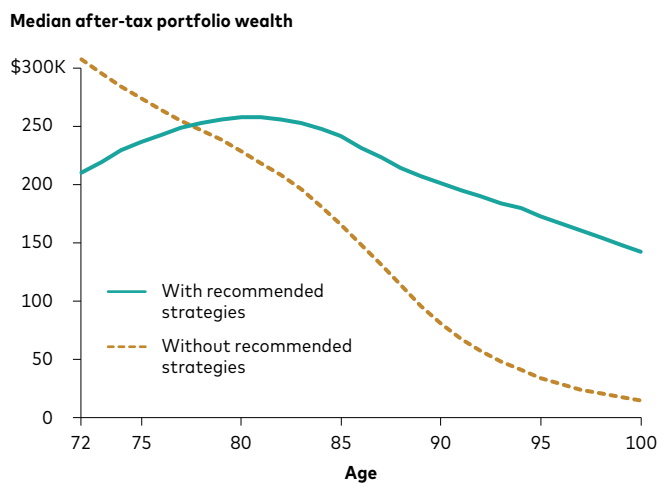
- By about age 93, however, the surviving spouse's spending drops below their essential needs without the recommended strategies. With the recommended strategies, they can cover their lifestyle expenses until age 100.
- Purchasing an annuity lowers their wealth at the outset; however, the added income helps preserve their portfolio longer, leading to greater wealth later in life. By age 100, their wealth is about \$130,000 higher with the recommended strategies than without.

FIGURE 16
The recommended strategies help Pete and Pate meet their spending goals and prepare for the future

a. Pete and Pate's projected spending with and without the recommended strategies



b. Pete and Pate's projected after-tax wealth with and without the recommended strategies



Notes: The analysis assumes a married couple, both age 72 and retired, with \$159,405 in a traditional IRA and \$198,602 in a taxable account, invested in a static allocation of 50% equities (60% U.S. and 40% international) and 50% bonds (70% U.S. and 30% international). The couple receives \$36,441 combined in annual Social Security benefits, and the surviving spouse receives \$24,909 annually following the death of the other spouse. Their real annual spending target includes \$44,645 in essential expenses and \$11,161 in discretionary expenses. Without the recommended strategies, the couple maintains a fixed real spending target adjusted only for inflation. With the recommended strategies, their spending target adjusts based on historical portfolio performance, with annual increases capped at 5% and decreases capped at 2.5%; the couple also allocates their entire traditional IRA balance to a SPIA at an annuitization rate of 6.83% and taps into home equity to generate an additional \$15,000 in annual nominal income. The SPIA annuitization rate for a 72-year-old married couple is estimated by linearly interpolating between Brighthouse Financial's annuitization rates for its Lifetime Income for Two, 100% Survivor product at ages 70 (6.51%) and 75 (7.32%) as of May 15, 2026. The chart shows expected annual spending and after-tax wealth from ages 66 to 110. At each age, the values represent the median outcome across 10,000 simulated market paths, with all results shown in today's dollars. Outcomes are generated using the VFAM, which incorporates long-term capital market and inflation projections from VCMM simulations run on February 28, 2026. These results are hypothetical, do not reflect actual investment performance, and are not guarantees of future outcomes.

Sources: Vanguard, using data from Brighthouse Financial.

Case 5: John and Jane, 68-year-old retirees

Tax-efficient strategies lower their tax bills and increase their legacy.

John and Jane's profile highlights	
Household	Retired married couple
Current savings	\$5.1 million (\$1.8 million tax-deferred)
Social Security	\$27,000 per year combined, \$17,000 per year for surviving spouse
Spending goal	\$124,000 per year, adjusted for inflation
Portfolio withdrawal needs	\$97,000 per year (1.9% of current savings)

Note: Values are rounded for presentation; unrounded values can be found in the Notes section under Figure 17.

Since John and Jane have already secured enough assets to cover both essential and discretionary expenses, they're now focused on making their legacy more meaningful. Their goal is to increase their end-of-life wealth to support family bequests and philanthropic giving while also simplifying their tax situation.

Recommended strategies	Why
1 Convert tax-deferred assets to Roth up to the top of the 24% federal marginal tax bracket.	Converting assets to Roth may result in higher taxes earlier on but reduces the taxes paid over John and Jane's lifetime, resulting in higher wealth.
2 Withdraw from taxable accounts first, then tax-deferred, and save Roth for last.	Drawing from taxable accounts first allows tax-advantaged assets to grow for a longer period of time.

Figure 17a shows John and Jane's cumulative tax amounts, and **Figure 17b** shows their after-tax wealth with and without the recommended strategies.

- With the recommended strategies, they are projected to increase their after-tax wealth by about \$710,000 by age 100, giving them greater control over their financial legacy and a clearer path to the impact they want to leave behind.

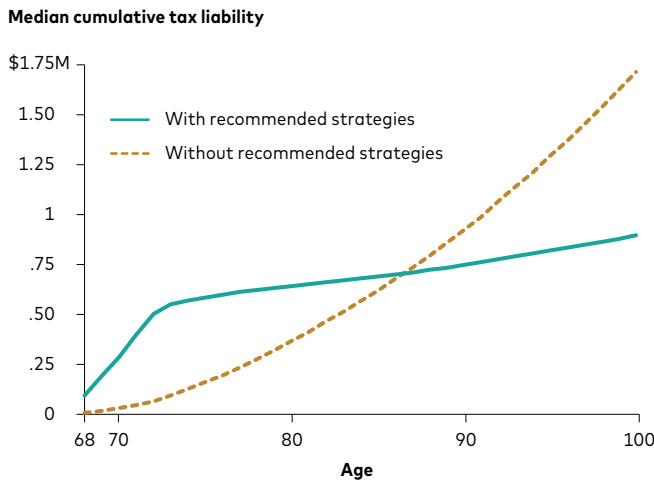
Impact of recommended strategies:

- With the recommended strategies, John and Jane's cumulative tax burden becomes lower than without the recommended strategies by age 87. By age 100, the strategy results in approximately \$820,000 in lifetime tax savings.

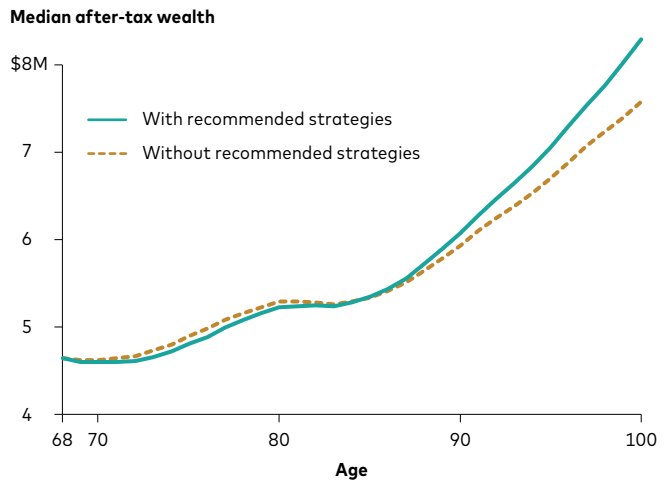
FIGURE 17

The recommended strategies help John and Jane reduce their tax bill and take control of their legacy

a. John and Jane's projected tax liability with and without the recommended strategies



b. John and Jane's projected after-tax wealth with and without the recommended strategies



Notes: The analysis assumes a married couple, both age 68 and retired, with \$1,809,646 in a traditional IRA and \$3,258,999 in a taxable account, invested in a static allocation of 50% equities (60% U.S. and 40% international) and 50% bonds (70% U.S. and 30% international). The couple receives a combined \$26,654 in annual Social Security benefits, and the surviving spouse receives \$17,498 annually following the death of the other spouse. Their real annual spending target is \$123,584. Without the recommended strategies, the couple withdraws savings proportionately from each account based on account values at each point in time. With the recommended strategies, the couple follows a tax-efficient withdrawal sequence, drawing first from taxable accounts and then from tax-deferred and Roth accounts; they also implement threshold-based Roth conversions beginning immediately and continuing until tax-deferred assets reach the top of the 24% federal marginal tax bracket. At each age, the values represent the median outcome across 10,000 simulated market paths, with all results shown in today's dollars. Outcomes are generated using the VFAM, which incorporates long-term capital market and inflation projections from VCMM simulations run on February 28, 2026. These results are hypothetical, do not reflect actual investment performance, and are not guarantees of future outcomes.

Source: Vanguard.

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Appendix 1. The Vanguard Financial Advice Model

The Vanguard Financial Advice Model (VFAM) is a simulation-based quantitative framework designed to support more personalized financial planning decisions. The model evaluates a broad range of financial strategies simultaneously including, but not limited to, Social Security claiming, tax-efficient withdrawal planning, and asset allocation across different account types.

The VFAM simulates how an investor might spend and save throughout their lifetime by generating 10,000 possible future scenarios. These simulations incorporate real-world uncertainties such as market returns, inflation, taxes, and life expectancy, based on the VCMM.³⁴ To build a realistic financial profile for each investor, the VFAM uses detailed personal information, including age, income, account balances, marital status, health, and employment status.

All VFAM analyses in this paper are based on the following modeling assumptions:

- VFAM employs detailed tax-lot accounting and assumes that current federal tax laws (as of 2026) remain in effect, adjusted annually for inflation.
- State taxes are not considered.
- Capital gains are realized in order from highest to lowest cost basis.
- Inherited tax-deferred accounts are taxed at a 24% beneficiary rate, while Roth accounts remain tax-free.

³⁴ See Appendix 2 on page 48 for further information about the VCMM. Life expectancy variability is calculated using SOA mortality tables. More specifically, we use RPH-2014 mortality tables: an employee table for ages 18–64, and an annuitant table for ages 65 and up. The mortality tables are headcount-weighted and projected forward using the mortality improvement scale MP-2021. All case studies in this paper assume average health status.

- The model limits annual portfolio withdrawals to 20% of the remaining; that is, investors may spend up to the sum of their after-tax income plus 20% of their total portfolio balance in any given year, and if the desired spending target exceeds this cap, realized spending may fall short.
- All results are presented in inflation-adjusted U.S. dollars.

Additionally, all case study analyses in this paper assume that salaries grow with inflation until retirement, and any unspent income is invested in a balanced portfolio consisting of 50% stocks and 50% bonds, unless otherwise specified.

Appendix 2. The Vanguard Capital Markets Model®

IMPORTANT: The projections and other information generated by the Vanguard Capital Markets Model (VCMM) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from VCMM are derived from 10,000 simulations for each modeled asset class. Simulations as of February 28, 2026. Results from the model may vary with each use and over time.

The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More importantly, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based. The VCMM is a proprietary financial simulation tool developed and maintained by Vanguard's primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money markets, U.S. municipal bonds, commodities, and certain alternative investment strategies. The theoretical and empirical foundation for the

VCMM is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes as well as uncertainty and randomness over time. The model generates a large set of simulated outcomes for each asset class over time. Forecasts represent the distribution of geometric returns over different time horizons. Results produced by the tool will vary with each use and over time.

Indexes for VCMM simulations

The long-term returns of our hypothetical portfolios are based on data for the appropriate market indexes through February 28, 2026. We chose these benchmarks to provide the most complete history possible, and we apportioned the global allocations to align with Vanguard's guidance in constructing diversified portfolios.

Asset classes and their representative forecast indexes are as follows:

- **U.S. equities:** MSCI US Broad Market Index.
- **Global ex-U.S. equities:** MSCI All Country World ex USA Index.
- **U.S. cash:** U.S. 3-Month Treasury—constant maturity.
- **U.S. bonds:** Bloomberg U.S. Aggregate Bond Index.
- **Global ex-U.S. bonds:** Bloomberg Global Aggregate ex-USD Index.

Appendix 3. Retirement plan information

Defined contribution plans

Defined contribution (DC) plans, such as 401(k) plans and 403(b) plans, have become the primary retirement savings vehicle for many Americans. Unlike traditional pensions, DC plans don't offer guaranteed lifetime income. Instead, they provide flexibility and control over how you manage your savings and withdrawals. That flexibility can be empowering—but it also means you're responsible for navigating market risk, longevity risk, and withdrawal strategy.

Key considerations for pre-retirees and retirees:

- **Catch-up contributions.** Once you turn 50, you can contribute additional amounts to your plan—an opportunity to boost savings in your final working years. Additional catch-up opportunities may also be available in the years you turn 60, 61, 62, and 63.³⁵
- **Withdrawal planning.** At retirement, you'll need to decide how to draw income—whether through systematic withdrawals, rolling over assets to an IRA, or converting part of your balance into a guaranteed income source like an annuity.
- **RMDs.** For traditional, pre-tax accounts, RMDs begin at age 73. Planning ahead can help minimize tax impacts and preserve assets.
- **Roth conversions.** Consider whether converting some assets to a Roth IRA makes sense, especially in lower-income years before RMDs begin.

Defined benefit plans

Defined benefit (DB) plans, also known as pensions, offer guaranteed lifetime income, making them a valuable source of retirement security for those fortunate enough to have them. Payments are based on salary and years of service, and retirees typically choose between a lifetime annuity or a lump-sum payout.

Annuities can be single-life or joint-and-survivor, with the latter continuing payments to a surviving spouse. These payments are also insured (within limits) by the Pension Benefit Guaranty Corporation (PBGC), adding a layer of protection.³⁶

Choosing a lump-sum payout offers flexibility but requires careful planning. You can take it in cash (which triggers taxes), roll it into a workplace plan, or move it to an IRA to maintain tax deferral and investment control. Some retirees also use part of the lump sum to buy a private annuity, though private annuities aren't backed by the PBGC.

The right choice depends on your income needs, tax situation, and desire for flexibility versus guaranteed income.

1. **Know your payout options.** Compare the benefits of an annuity with a lump sum based on your income needs and risk tolerance.
2. **Plan the lump sum tax-efficiently.** Roll it into an IRA to avoid taxes and keep control over investments.

³⁵ Catch-up contributions allow individuals who are age 50 or older by year-end to contribute more than the standard annual limit to certain retirement accounts. Recent legislation also permits higher catch-up contribution limits for some employer-sponsored plans in the years an individual reaches age 60, 61, 62, and 63, subject to plan rules and IRS limits. For more information, see [irs.gov/retirement-plans/plan-participant-employee/retirement-topics-catch-up-contributions](https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-catch-up-contributions).

³⁶ The PBGC insures benefits from covered private-sector DB plans, but only up to the limits set by federal law. The maximum guaranteed benefit depends on factors such as the retiree's age when benefits start, the form of annuity elected, and the year the plan terminates. Most benefits are fully covered, but very large pensions may exceed coverage limits. For more information, see [pbgc.gov/workers-retirees/learn/guaranteed-benefits/monthly-maximum](https://www.pbgc.gov/workers-retirees/learn/guaranteed-benefits/monthly-maximum).

Appendix 4. Data sources, spending statistics, and case study profiles

Data sources

The Health and Retirement Study (HRS) is sponsored by the National Institute on Aging (grant number NIA U01AG009740) and is conducted by the University of Michigan.

The spending results reported in Figure 1 on page 5 and the illustrative retiree profiles used in the “Case Studies” section on page 35 are based on data from the HRS and its Consumption and Activities Mail Survey (CAMS). The HRS is a nationally representative longitudinal survey of U.S. households over age 50 that provides detailed information on income, assets, housing status, and demographic characteristics. The CAMS supplements the HRS with detailed household-level spending information for corresponding respondents. We use RAND-harmonized HRS and CAMS files and apply household-level CAMS analysis weights so that results are representative of the retiree population.

The following data files were used in the creation of this paper:

Health and Retirement Study, RAND HRS Longitudinal File 2020 (V2) public use dataset. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI, May 2024.

RAND HRS Longitudinal File 2020 (V2). Produced by the RAND Center for the Study of Aging, with funding from the National Institute on Aging and the Social Security Administration. Santa Monica, CA, May 2024.

RAND HRS CAMS Data File 2021 (V1). Produced by the RAND Center for the Study of Aging, with funding from the National Institute on Aging and the Social Security Administration. Santa Monica, CA, June 2024.

Typical spending patterns in the United States

Statistics reported in Figure 1 are constructed by aggregating detailed spending items from the CAMS 2021 wave into eight broad categories:

- Housing and maintenance includes housing costs, utilities, mortgage payments, household durables, and maintenance services.
- Transportation includes vehicle purchases, financing, insurance, maintenance, and gasoline.
- Health includes insurance premiums, prescription drugs, medical services, and supplies.
- Food includes groceries, dining out, and alcohol.
- Clothing and personal care includes apparel and products and services for things such as hair, shaving, and skincare.
- Gifts and donations includes cash gifts and charitable contributions.
- Trips and vacation includes travel-related spending.
- Leisure includes entertainment, hobbies, sports equipment, and consumer electronics such as televisions and computers.

The reported values represent weighted medians for each spending category among households that are retired and ages 65–69 in 2019, the reference year for the CAMS 2021 survey. Results are shown separately by marital status.

Case study profiles and clustering approach

We apply k-means clustering to the HRS data from 2000 through 2020 to group retirees with similar financial characteristics, such as income, assets, housing, and spending. K-means clustering places a small number of “centers” in the data and assigns each household to its closest center, forming groups that are similar within and distinct across clusters.

The analysis yields five representative retiree profiles. These profiles are illustrative, not labels: they capture common financial situations and trade-offs and provide realistic, data-grounded examples of how retirement resources and spending typically fit together.

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There are important factors to consider when rolling over assets to an IRA. These factors include, but are not limited to, investment options in each type of account, fees and expenses, available services, potential withdrawal penalties, protection from creditors and legal judgments, required minimum distributions, and tax consequences of rolling over employer stock to an IRA.

Be aware that fluctuations in the financial markets and other factors may cause declines in the value of your account. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income.

Neither Vanguard nor its financial advisors provide tax advice. This information is general and educational in nature and should not be considered tax advice.

All investments are subject to risk, including the possible loss of the money you invest.

Diversification does not ensure a profit or protect against a loss.

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