SAM'S ECONOMICS

A SAM'S ECONOMICS COMPANION GUIDE

Cut 5, Splurge on 2

The five things wealthy retirees stop buying, the two they spend more on, and the math that sorts every dollar: does it lose value, or does it lose time?

CONTENTS

What's inside

01 The rule: cut what loses value, fund what loses time 3

02 The five cuts, with the math 4

03 The two splurges 6

04 Three paths, one couple 7

05 The cut-or-splurge checklist 8

06 The 30-day pause worksheet 9

07 Questions to bring to your advisor or CPA 10

HOW TO READ THE NUMBERS

Every figure is in today's dollars. The model starts with $1,200,000 at age 60, withdraws $50,000 a year at the start of each year, and earns 4.5% above inflation for 25 years. The free Cut and Splurge Calculator runs the same model with your own numbers.

SECTION 01

Cut what loses value. Fund what loses time.

Retirement spending is not a tug-of-war between frugal and generous. It is a sorting problem.

LOSES VALUE

A new car, an add-on policy, a trend remodel, a fee on autopilot, an impulse purchase. Each is worth less the moment you pay, and each costs you more every year you keep paying.

LOSES TIME

Your hearing, your balance, the years you can still travel with the people you love. These have a deadline, so waiting does not save the money. It just removes the purchase.

Why Elena and Greg were both wrong

Elena cut everything, including the hearing test. Greg spent freely on the wrong things. Each was quietly certain the other would wreck the retirement. In the model, the couple that spent the most ended with the least, and the couple that cut everything ended with the most money and arguably the smallest retirement. A third path funded $190,000 of real splurges and still finished about $250,000 ahead of Greg.

THE ONE QUESTION

It never asks whether you are frugal or generous. It asks one thing about each dollar: **does this lose value, or does it lose time?**

SECTION 02

The five cuts, with the math

Each cost is grown at 4.5% real to age 85, as if the money had stayed invested.

1 The brand-new car

A $60,000 SUV can lose roughly 20% in year one and around 40% by year three. A certified three-year-old version might cost $38,000, a $22,000 difference. Buy new at 60 and again at 70 and the premium is paid twice.

PREMIUM PAID	YEAR	GROWN TO AGE 85
$22,000	0	$66,120
$22,000	10	$42,576
Total		**$108,696**

2 The protection stack

Six plans at about $25 a month is $1,800 a year. Invested for 25 years it becomes about **$80,217**. The rule: insure the thing that could sink you, self-insure the thing you can afford to replace. Keep health, homeowners and liability.

3 The trend-driven remodel

Cost-versus-value studies generally find a mid-range kitchen remodel recovers around half to two-thirds of its cost at sale. At 60%, a $60,000 remodel leaves $24,000 unrecovered, and none of it comes back if you never sell. Two remodels (years 4 and 14) grow to about **$99,434**. Function is the test: fix the roof, fix the wiring.

> **THE EXCEPTION**
> A remodel that prevents a fall, such as a safer upstairs bathroom, is not a cut. It is a splurge (Section 03).

SECTION 02, CONTINUED

4 The percentage fee on autopilot

A 1% fee on $1.2M is $12,000 in year one and rises whenever the portfolio does. A fee-only fiduciary charging a flat $3,000 for a plan and a yearly check-in is the comparison used here. Same portfolio, same spending, same 4.5% real return, 25 years:

SEE IT SIDE BY SIDE

The 1% version finishes about **$335,809** lower. The only thing that changed was how the advisor got paid. This is not advice to fire anyone. It is advice to learn what the fee costs over 25 years, then decide whether the service is worth that number.

5 The emotional purchase

The order placed at 10:30 on a Tuesday night, the cruise booked because a friend posted theirs, the toys bought because you wish the visit lasted another day. Say it adds up to $250 a month ($3,000 a year). A rule that stops half of it saves $1,500 a year, about **$66,848** over 25 years. The rule never says no. It says not yet (see the worksheet).

The five leaks together

LEAK	COST BY AGE 85
Fee on autopilot	**$335,809**
New-car premium	**$108,696**
Trend remodel	**$99,434**
Protection stack	**$80,217**
Impulse purchases	**$66,848**

Each item is calculated alone, so they are approximate and do not sum exactly to the gap between the paths below. Averaged per year, the five cuts free about $15,980.

SECTION 03

The two splurges

The cut list loses value the moment you pay. This list loses time.

6 Staying able

The CDC reports that about one in four adults over 65 falls each year, and many falls start with things a budget can fix: a loose rug, a missing grab bar, a shower with a lip. Original Medicare generally does not cover routine dental care, hearing aids or eyeglasses, so people skip them. Large studies have linked untreated hearing loss with faster cognitive decline, and a major 2023 trial found hearing aids slowed that decline in people at higher risk. Over-the-counter hearing aids start at a few hundred dollars; prescription models can run several thousand.

7 Money spent while the window is open

Researcher David Blanchett found a pattern called the retirement spending smile: real spending is highest early, slides roughly 1% a year through the middle years, then ticks up late with health costs. Your most active years are the first ten or fifteen, exactly when frugal retirees spend least, out of fear of year 25. A trip with your daughter and her kids at 62 is not the same product at 82.

THE SPLURGE BUDGET USED HERE

$10,000 a year for years 1 to 10, then **$6,000 a year** for years 11 to 25, covering hearing, mobility, dental care and time with family. Total over 25 years: **$190,000**, an average of $7,600 a year, less than half of what the cuts free up.

The medical and research figures above are general findings summarised for illustration. Check the current numbers with your own doctor and sources.

SECTION 04

Three paths, one couple

Same $1.2M, both 60, $50,000 withdrawn a year, 4.5% real, 25 years. None runs out of money.

PATH	WHAT THEY DO	AT AGE 85
Greg	New SUV now and at 70, the protection stack, two remodels, 1% fee, $3,000 a year of impulse buys, no splurge budget	**$438,306**
Balanced	All five cuts made, impulse spending halved, both splurges funded ($190,000)	**$689,592**
Elena	Everything cut, flat-fee advisor, no impulse buys, no splurges at all	**$1,138,277**

LOOK AT WHAT HAPPENED

The balanced couple spent $190,000 more on actual living than Greg and still finished about **$251,000 ahead** of him. The five cuts paid for both splurges and then some.

The honest price tag

Elena finishes about $449,000 ahead of the balanced couple. Not all of that is the splurges. About **$378,829** is the true ending-balance cost of the $190,000 of splurges, and about **$69,856** is the impulse spending the balanced couple chose to keep. If the difference is going to your kids on purpose, that is a fine plan. If it is only a number on a screen at 85, that is a real question, and it is yours to answer.

TRY IT WITH YOUR NUMBERS

The free Cut and Splurge Calculator reproduces this table with the defaults and lets you change every input. The link is in the video description.

SECTION 05

The cut-or-splurge checklist

Run any purchase over $100 through these questions before you pay.

- [ ] **Does it lose value the moment I pay?** New car, extended plan, trend upgrade, subscription I forgot. If yes, it starts on the cut side.
- [ ] **Does it lose time if I wait?** A trip with people who may not travel later, a hearing test, a grab bar, a dental fix. If yes, it starts on the splurge side.
- [ ] **Could this loss sink me?** If yes, keep the insurance. If I could replace the item from savings, self-insure.
- [ ] **Does it fix function or follow a trend?** Roof, wiring, a safer bathroom: function. A countertop from a design feed: trend.
- [ ] **Do I know what it costs over 25 years?** Recurring costs, especially percentage fees, need a dollar figure, not a percentage.
- [ ] **Is it over $50 and non-essential?** Put it on the 30-day list. Ask once: am I still glad I want this?
- [ ] **Would a certified, used or simpler version do the job?** Same function, less of the first-owner premium.
- [ ] **Does it have a name on my splurge list?** If not, decide whether it deserves a spot before the budget is spent elsewhere.

START TONIGHT

Write down the last five things you bought for more than $100. Sort them into two columns: value-losers on the left, time-losers on the right. If the left column is full and the right is nearly empty, you have found your mismatch.

SECTION 06

The 30-day pause worksheet

It never says no. It says not yet.

ITEM	PRICE	DATE LISTED	BUY-ON DATE	STILL GLAD? (Y/N)	BOUGHT?

MONTHLY TALLY

Items listed: _____ Items not bought: _____ Dollars kept: _____

MY TWO SPLURGES FOR THIS YEAR

_____

_____

_____

If half of what goes on the list never gets bought, $250 a month of impulse spending becomes $1,500 a year saved.

SECTION 07

Questions to bring to your advisor or CPA

A good professional will welcome all of these.

- [ ] What is my all-in annual cost, in dollars, including fund expenses, and what does it grow to over 25 years?
- [ ] What would a flat-fee or hourly arrangement cost for the same services?
- [ ] Which services am I actually receiving: a written plan, tax planning, a yearly review?
- [ ] Given my portfolio and spending, what withdrawal rate is sustainable, and what is the plan if returns disappoint?
- [ ] How should I budget for health and mobility costs Medicare may not cover well?
- [ ] Which of my insurance policies protect against a loss I could not absorb, and which duplicate coverage?
- [ ] If I want to leave money to my children on purpose, how much, and how does that change my splurge budget?

IMPORTANT

This guide and the calculator are educational, not financial, tax, legal or medical advice. The model is simplified: constant real return, fixed withdrawals, no taxes, no market swings, no Social Security. The cost figures for cars, remodels, plans and fees are illustrative assumptions, not quotes. Real results will differ. Talk to a fee-only fiduciary advisor or CPA before making decisions.

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