

AI-03693 Growth vs Decline of Portfolio Post Retirement

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In the video "**Why People Get Richer After Retirement**," Wes (The Catch-Up Investor) explains why many retirees find their net worth increasing even without a paycheck. The core message is that retirement math is often more favorable than most people realize because they focus on the "gap" rather than just a total "number."

Key Takeaways: Why Net Worth Grows in Retirement

The video identifies three major shifts that allow savings to keep compounding even after you stop working:

- **Disappearing Costs:** Work-related expenses—such as commuting, professional wardrobes, and the 7.65% payroll tax—vanish. Most importantly, you are no longer setting aside a portion of your income for retirement savings.
- **Guaranteed Income Floor:** Social Security and pensions cover a massive portion of basic needs. Because this income is steady and does not fluctuate with the market, it reduces the amount you actually need to withdraw from your portfolio.
- **Lower Tax Brackets:** Many retirees drop from high-earning tax brackets (e.g., 24%) into much lower ones (e.g., 12%). This makes every dollar withdrawn more efficient and helps the remaining balance stay intact longer.

The "Portfolio Gap" Framework

The most important metric is the **Real Spending Gap**—the specific amount your savings must provide after other income is factored in.

- **The Math:** (Expected Spending + Healthcare + Taxes) - Guaranteed Income = **The Gap.**
- **The Result:** A person aiming for \$70,000 in annual spending might assume they need a \$1.75 million portfolio. However, if Social Security covers \$42,000, their "gap" is only \$28,000, requiring a portfolio of only \$1 million. This significantly lowers the barrier to a safe retirement.

Potential Risks (The "Leaks")

Wes warns of three specific issues that can disrupt these calculations if not planned for:

- **Healthcare Escalation:** Medicare premiums and supplemental insurance can cost a couple \$7,000–\$10,000 annually and increase with age.
- **IRMAA Surcharges:** Higher income (often from Required Minimum Distributions) can trigger Medicare surcharges based on income from two years prior.
- **The Widow Penalty:** When a spouse passes away, the survivor loses one Social Security check and must file taxes as a single individual, often resulting in a higher effective tax rate.

Strategic Action Steps

1. **Calculate the Gap:** Determine exactly what your portfolio needs to cover rather than managing by general anxiety.
2. **Layer Your Income:** Build a "floor" of guaranteed income first, followed by semi-passive dividends or interest, and only then use portfolio withdrawals as the final layer.
3. **Control Tax Timing:** Use the "low-income window" between retirement and age 73 (when RMDs begin) to perform **Roth Conversions**. This strategy can save six figures in taxes over a lifetime.

Conclusion

The psychological hurdle of switching from 30 years of *saving* to *spending* is often the hardest part of retirement. Many retirees end up underspending out of fear because they don't understand their specific spending gap. Understanding

the mechanics of your income flows allows you to manage by structure rather than anxiety.

Source Video: [Why People Get Richer After Retirement](#)