EBRI FAST Facts

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Retirees' Dilemma: Spend or Preserve?

A recent study by the Employee Benefit Research Institute (EBRI) titled "Retirees in Profile: Evaluating Five Distinct Lifestyles in Retirement" outlined five retiree personas that EBRI developed based on retirees' demographics, financial status, and spending behaviors.[1] In this *Fast Fact*, we examine a spending paradox exhibited by the following three retiree types: Average Retirees, Affluent Retirees, and Comfortable Retirees. We focus on the spending behaviors of these three groups because most within each cohort reported that their standard of living in retirement was the same or better than when they were working. They also were the most likely of the five cohorts to report that they had saved enough or more than was needed for retirement.

The three retirees featured in this* Fast Fact *exhibited the following characteristics:

Average Retirees were more likely to report low levels of financial assets ($99,000 or less) and intermediate levels of income (between $40,000 and $100,000 annually). The majority had easily manageable debt or no debt at all. Four in ten were mortgage-free homeowners, while nearly half had mortgages and only 12 percent rented. Just over half of Average Retirees thought they'd saved enough or more than enough for retirement. Defined benefit (DB) plans played a major role for Average Retirees, along with Social Security.

Affluent Retirees were more likely to have high levels of financial assets ($320,000 or more) and income ($100,000 or more annually). The majority were mortgage-free homeowners with no debt, and the majority of those with debt reported it to be easily manageable. The majority of Affluent Retirees believed they had saved enough money for retirement. The retirees in this group also had access to more types of retirement income than the retirees from the other groups, with defined benefit pension plans and personal savings being the most commonly cited.

Comfortable Retirees were more likely to have intermediate levels of financial assets (between $99,000 and $320,000) and income. Thirty-seven percent had a mortgage, while 1 in 2 were mortgage-free homeowners. One-third reported no debt, and 42 percent had an easily manageable amount of debt. Almost three-quarters said their retirement savings are sufficient or even greater than needed. In this group, more retirees cited workplace retirement savings plans such as 401(k) plans and individual retirement accounts, in addition to Social Security, as their major source of income.

Yet, despite this, the majority within each of these three retiree cohorts reported that their current level of assets was the same or higher than when they first retired. Three-quarters of the Average Retiree group — which had typically been in retirement for nine years — reported that their retirement assets were either the same or had grown since retirement (Figure 1). Approximately the same proportion of Comfortable Retirees — whose average time in retirement was seven years — reported this. Meanwhile, more than 8 in 10 Affluent Retirees — with average time in retirement of 10 years — reported that their financial assets were the same or greater than when they first retired.

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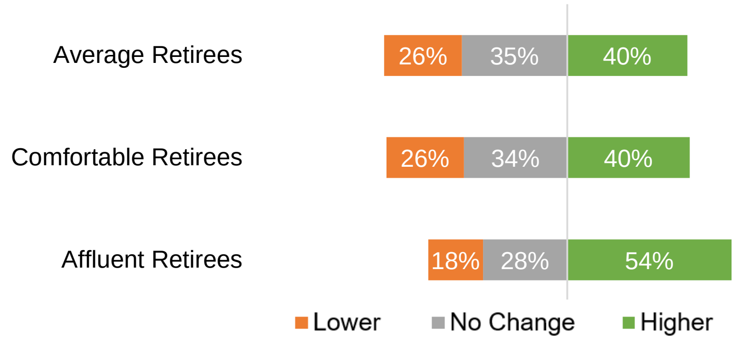
[1] The study was based on a survey of 2,000 retired households aged 62 to 75 and with fewer than $1 million in financial assets. See https://www.ebri.org/publications/research-publications/issue-briefs/content/retirees-in-profile-evaluating-five-distinct-lifestyles-in-retirement

EBRI was able to fund the development of this research thanks to a generous grant from the RRF Foundation for Aging.

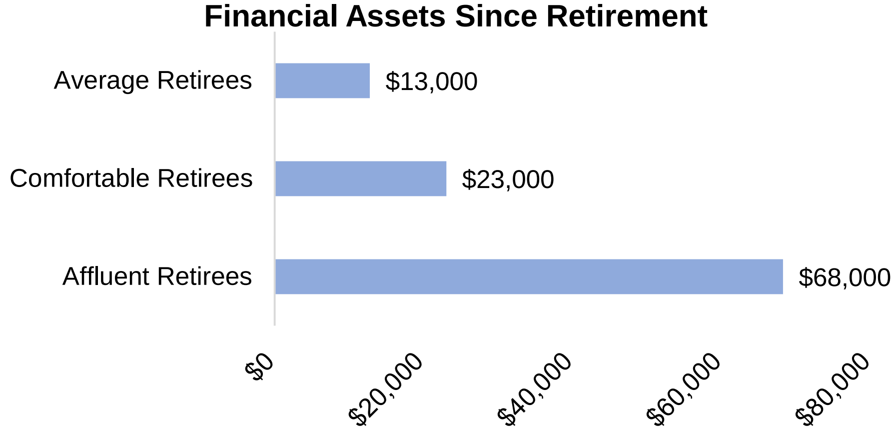
Figure 1
How Retirees' Self-Reported Current Financial Assets Compare With Those at the Time of Retirement



Source: EBRI's Spending in Retirement Survey.

Figure 2 shows the average amount of change (including zeros) in financial assets since retirement. Affluent Retirees, on average, reported that their assets had increase $68,000 — the most of any of the three cohorts. But the Average and Comfortable Retirees also reported increases in financial assets — by $13,000 and $23,000 on average, respectively.

Figure 2
Average Change in Retirees' Self-Reported Financial Assets Since Retirement



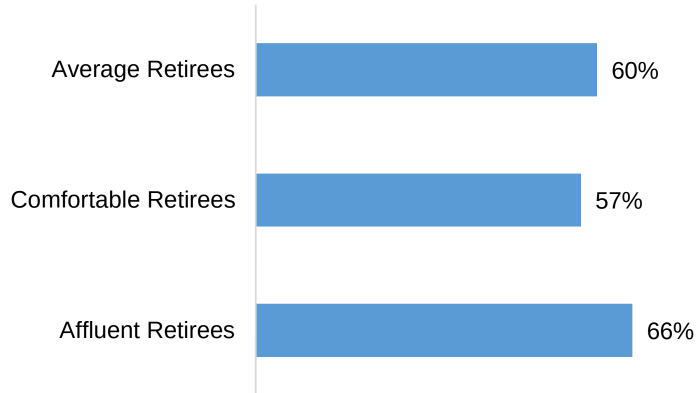
Source: EBRI's Spending in Retirement Survey.

Considering the self-reported nature of this information, it likely reflects some level of recall bias. However, these numbers are consistent with the retirees' stated objectives for spending down their financial assets in the remaining years of their retirement. As shown in Figure 3, two-thirds of Affluent Retirees reported that they seek to maintain, spend only a small portion of, or grow financial assets; 60 percent of Average Retirees and 57 percent of Comfortable Retirees reported this.

When asked why they planned to keep their assets intact or grow them in retirement, fear of running out of money was relatively low on the list of reasons for each cohort (Figure 4). Indeed, only 14 percent of Affluent Retirees stated this as a reason. Instead, nearly half in that group simply believed that spending down assets was unnecessary. Ranking a close second and third were concerns about saving for unforeseen costs later in retirement

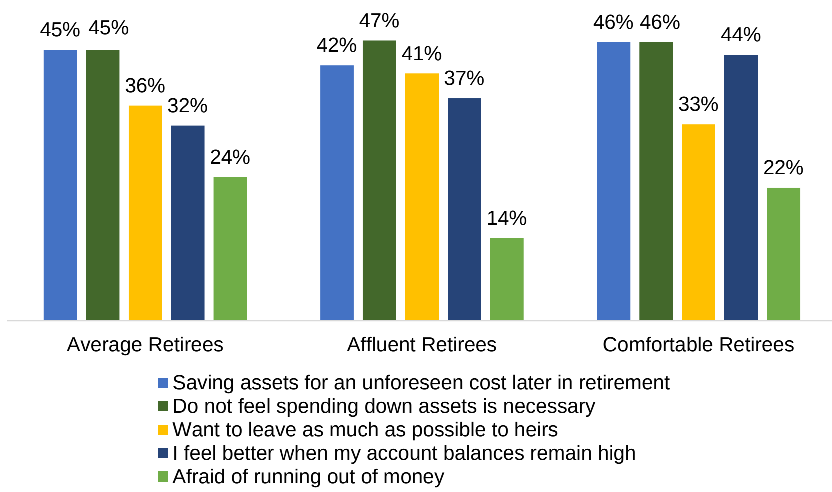
(42 percent) and wanting to leave as much as possible to heirs (41 percent). Saving for unforeseen costs and feeling that spending down assets was unnecessary scored highly for Average and Comfortable Retirees. However, the bequest motive was less of a factor for Comfortable Retirees (33 percent), while simply feeling better about having high account balances ranked higher (44 percent).

Figure 3
Grow or Spend Down None or Small Portion of Financial Accounts



Source: EBRI's Spending in Retirement Survey.

Figure 4
Why Retirees Plan to Spend Down None of or Grow Their Financial Assets in Retirement



Source: EBRI's Spending in Retirement Survey.

These findings raise a number of important questions when it comes to retiree spending behavior. The rationale of "saving assets for unforeseen costs later in retirement" raises the specter that these retirees are willing to accept a reduced standard of living today in exchange for self-insurance against low-probability catastrophic events such as the need to pay for an extended stay in an assisted living facility late in life. The rationale of "not feeling that spending down assets is necessary," meanwhile, suggests that it may be difficult for retirees to switch from a lifetime of saving to a spending mode. It has also been suggested that retirees' priorities simply change as they age; this may be reflected in the statement that the retirees simply "feel better when their account balances remain high." In other words, it is possible that material possessions provide less joy to them than the security of having a nest egg. All of this is important to consider in determining an optimal withdrawal strategy for retirees that takes into account the uncertainties they may encounter during their remaining lifetime as well as their behavioral biases, desires, and needs. Other research[2] by EBRI suggests that guaranteed streams of income may increase retirees' comfort level when it comes to spending in retirement, reinforcing the notion that uncertainty plays a large role in these spending behaviors and attitudes.

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[2] See https://www.ebri.org/publications/research-publications/issue-briefs/content/a-tale-of-three-retirement-lifestyles