Retiree Behavior: Some evidence from Vanguard

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Client retirement issues

• 77 million boomers (1946–1964), oldest turned 60 in 2006
• The Great Angst of mature boomer parents:
  — World War III / Nuclear Holocaust / “The Day After”
• The Great Angst of mature boomers:
  — Retirement (?)
• The fear is real
  — But what specific mistakes are being made?
• Data from Vanguard’s planning units could be informative
• Also – a brief note on defaults
Findings

#1: Clients don’t plan until very late in the game
#2: Clients hold an enormous amount of cash
#3: Clients are broadly diversified
#4: Clients could improve asset location
#5: Retirees spend less than workers at all ages
#6: Typical retired client spends less than income
#7: Typical client adequately prepared for retirement

Big caveat: we are studying a wealthy sample!
Finding #1: Investors plan late in the game

Distribution of “Years to Retirement Date” within retirement planning population (n=36,053)

<table>
<thead>
<tr>
<th>Years to retirement</th>
<th>Single</th>
<th>Couple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retired</td>
<td>59.10%</td>
<td>64.90%</td>
</tr>
<tr>
<td>1–5 years</td>
<td>19.10%</td>
<td>15.40%</td>
</tr>
<tr>
<td>6–9 years</td>
<td>7.60%</td>
<td>7.00%</td>
</tr>
<tr>
<td>10–14 years</td>
<td>6.70%</td>
<td>5.30%</td>
</tr>
<tr>
<td>15+ years</td>
<td>7.50%</td>
<td>7.40%</td>
</tr>
</tbody>
</table>

Less than 25% of population

Finding #3: Clients are broadly diversified

Not as diversified in their retirement accounts…

Finding #4: Clients could improve asset location

Average taxable portfolio
47% of financial assets

- Taxable cash: 35%
- Tax-exempt cash: 5%
- Taxable bonds: 12%
- Tax-exempt bonds: 8%
- Active stock: 7%
- Individual stocks: 19%
- Passive stock: 14%

Average tax-deferred portfolio
53% of financial assets

- Taxable cash: 20%
- Tax-exempt cash: 5%
- Taxable bonds: 25%
- Tax-exempt bonds: 8%
- Active stock: 17%
- Individual stocks: 11%
- Passive stock: 27%

Finding #5: Retirees spend less than workers

Median “core” expenses, including taxes and loan payments. Retirees spend roughly 25% less.

Finding #6: Retirees spend less than income

Retirees only: Median AGI, median “core” expenses including taxes and loan payments

Current income/expenses (in thousands)

Age

<35 35–44 45–49 50–54 55–59 60–64 65–69 70–74 75–84 85+

$0 $20 $40 $60 $80 $100 $120 $140 $160 $180 $200

Adjusted gross income  After-tax expenses

“Annuity Defaults” not likely to be powerful

- Mottola & Utkus Research (2007)
  - Majority take non-annuity distributions
  - Higher for DB plans than cash balance
- Ameriks research (2004)
  - TIAA-CREF experience showed significant declines in annuitization rates
  - Rise in use of RMDs
- Still need more study of withdrawals:
  - ICI finds most common reason for IRA withdrawals are RMDs
  - Mottola & Utkus (2008) find many who take large ad-hoc withdrawals
Conclusions

• Better decisions possible, even among wealthy
  — Actual planning (as opposed to “sorting it out” afterward) requires more time to plan
  — Reconsider long-term appropriateness of cash position
  — Better asset location decisions

• Core expenses are lower among retirees. More assets and less spending can be combined to get to retirement
  — “Spending down” is not something that comes naturally, at least not yet

• Defaults unlikely to impact annuity usage
  — No real evidence that annuities are getting significant traction