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!

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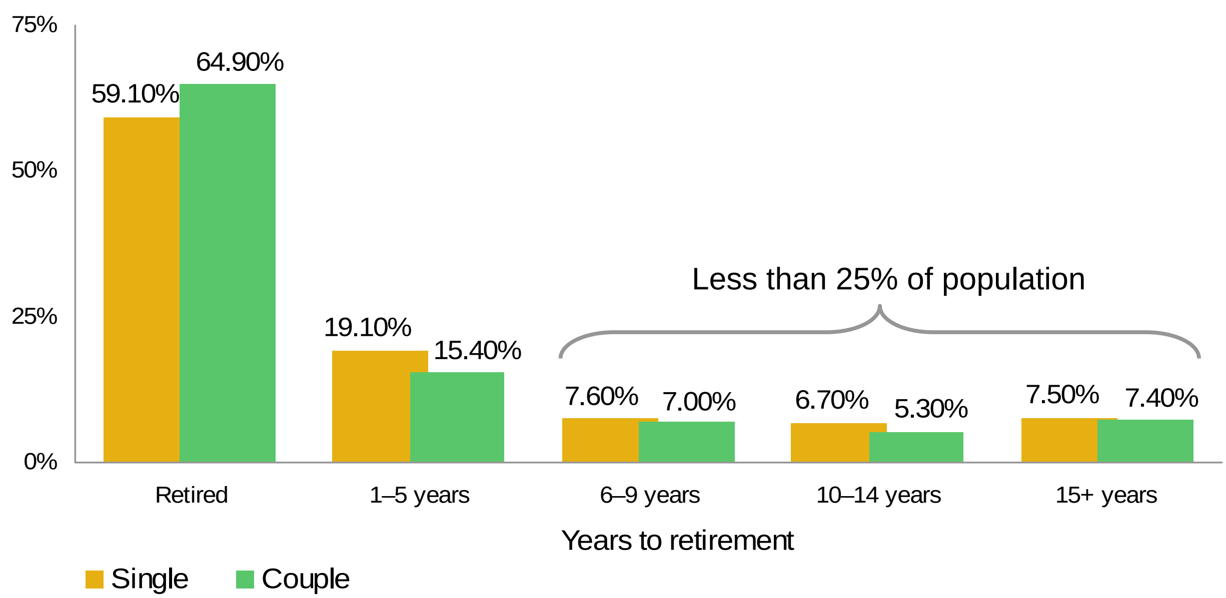
Finding #1: Investors plan late in the game

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



Source: Vanguard, 2006.

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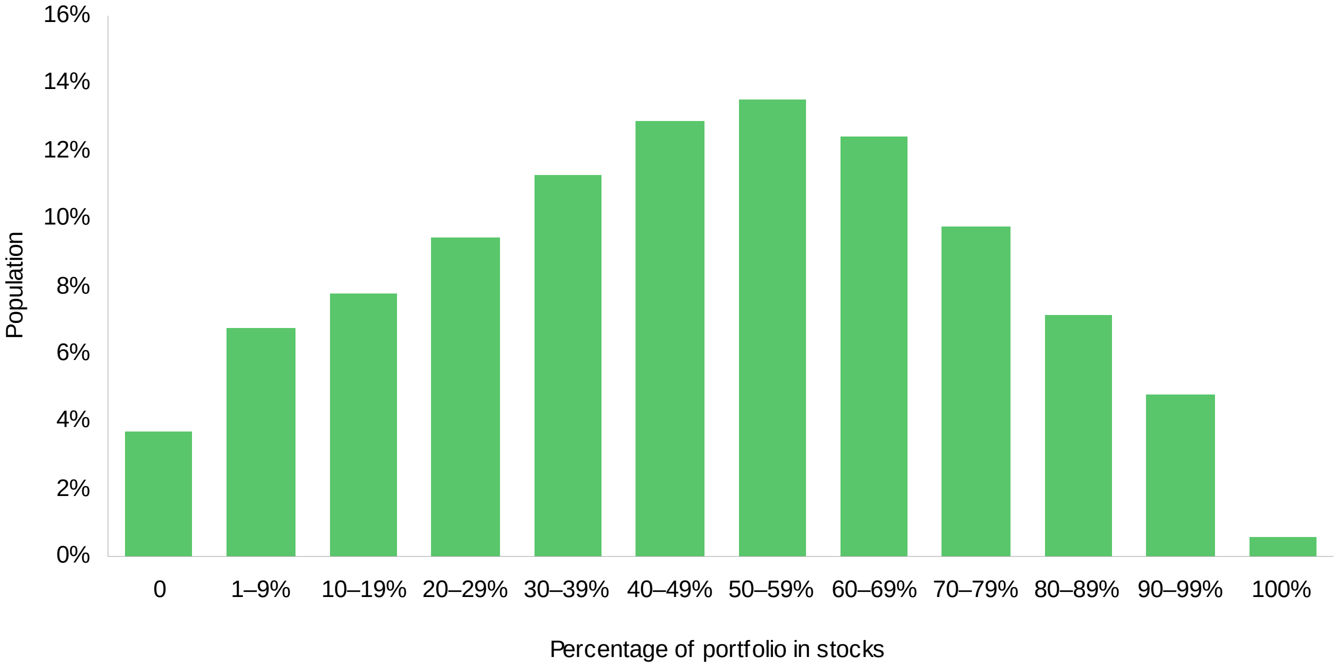
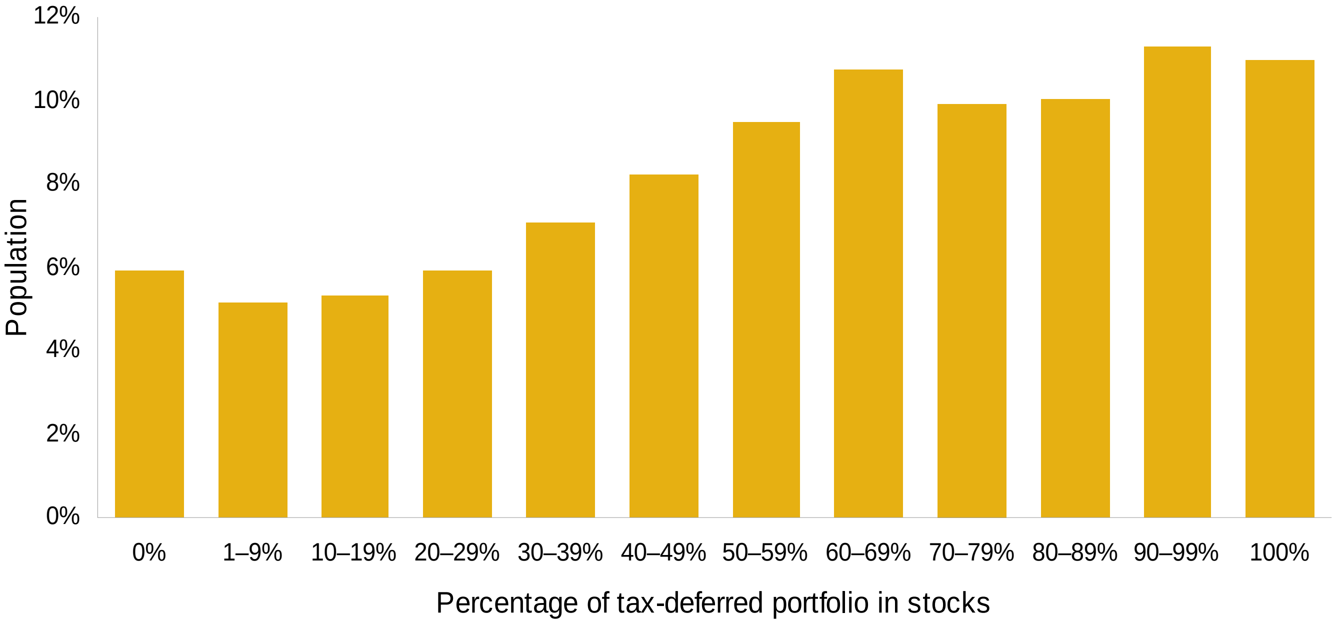
Finding #3: Clients are broadly diversified



Source: Vanguard, 2006.

Not as diversified in their retirement accounts…



Source: Vanguard, 2006.

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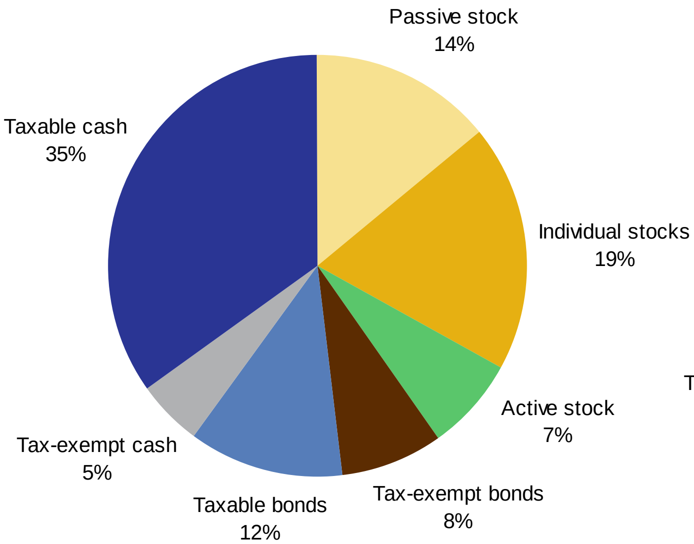
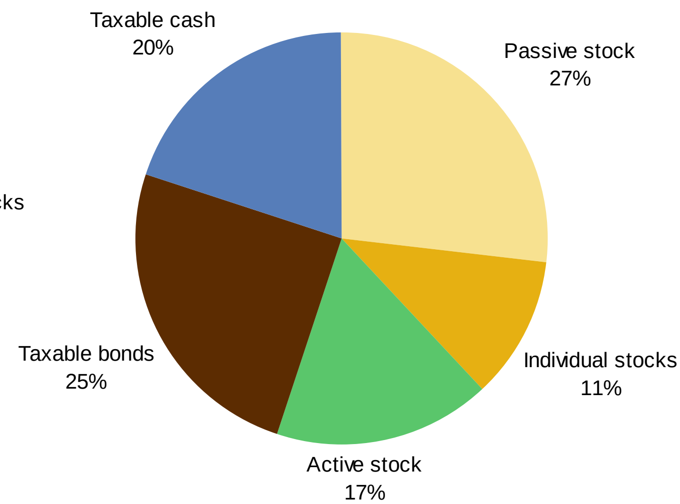
Finding #4: Clients could improve asset location

Average taxable portfolio
47% of financial assets



Average tax-deferred portfolio
53% of financial assets



Source: Vanguard, 2006.

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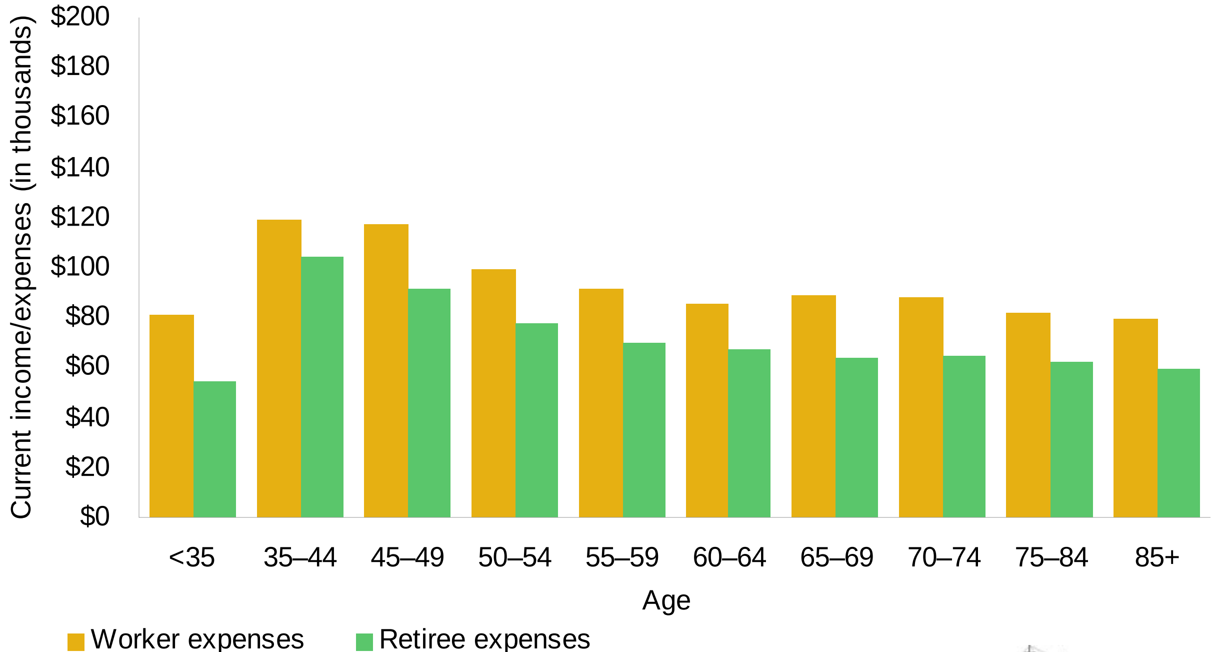
Finding #5: Retirees spend less than workers

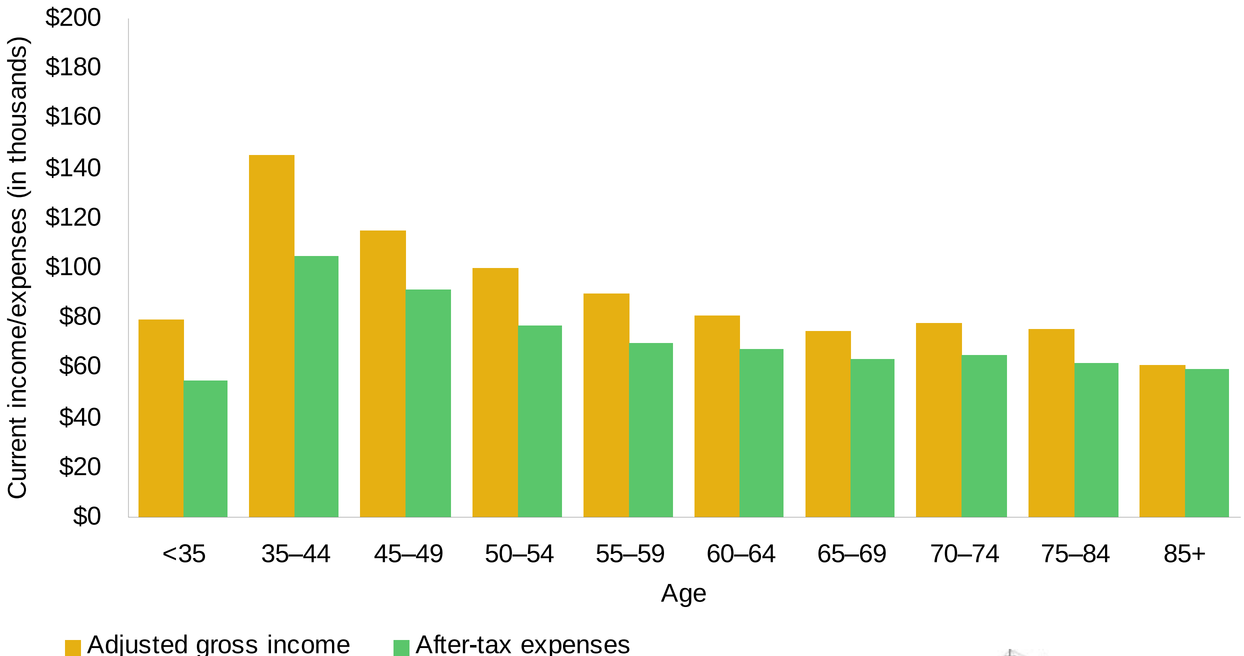
Median “core” expenses, including taxes and loan payments. Retirees spend roughly 25% less.



Source: Vanguard, 2006.

Finding #6: Retirees spend less than income

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



Source: Vanguard, 2006.

“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

Figure 2. Distributions by Plan

	Traditional plan	Cash balance plan
All participants		
Cash-outs	51%	27%
Lump-sum distributions	22%	63%
Annuity payouts	27%	10%
Excluding cash-outs, lump-sum-ineligible participants, and participants younger than 55 at termination		
Lump-sum distributions	73%	83%
Annuity payouts	27%	17%

Source: Vanguard, 2007.

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

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