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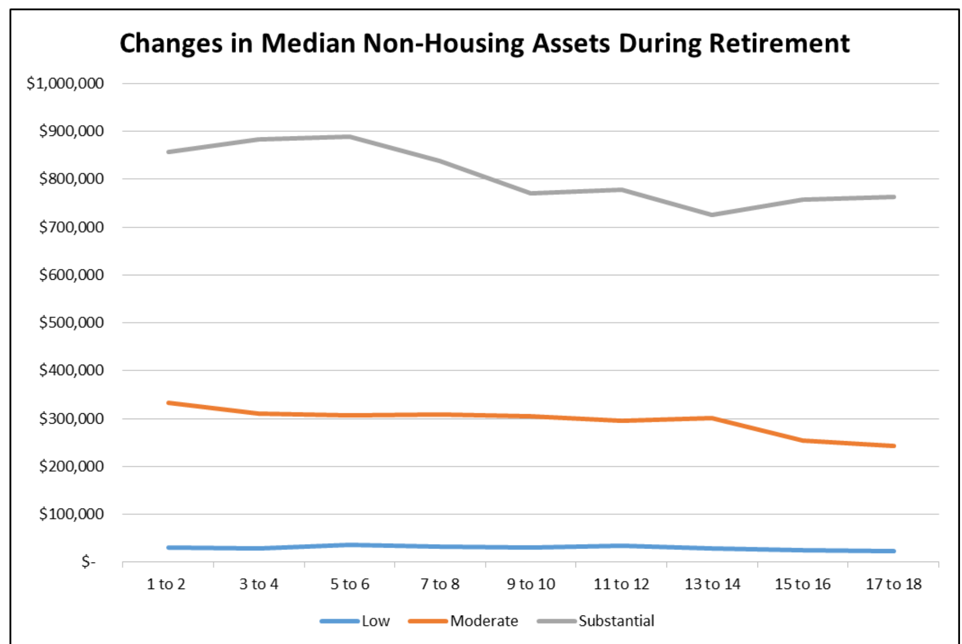
FAST Facts

# Spending Patterns in Retirement: Retirees are Slow to Exhaust their Assets

EBRI's *Issue Brief*, "Asset Decumulation or Asset Preservation? What Guides Retirement Spending?" finds that retirees are not spending down their accumulated assets to fund their retirement needs—even when assets are plentiful or when there is guaranteed income available to ensure that retirees will not run out of money.
The study, undertaken by the Employee Benefit Research Institute (EBRI), reviews data reflecting how retirees actually use their non-housing assets during their first two decades of retirement by examining income and asset data from the Health and Retirement Study (HRS).[1] The HRS is the most comprehensive survey of older Americans in the country and is supplemented by spending data from the Consumption and Activities Mail Survey (CAMS).

The analysis examines spending patterns of retirees with low pre-retirement non-housing assets (less than $200,000), moderate pre-retirement non-housing assets (between $200,000 and $500,000), and substantial pre-retirement non-housing assets (at least $500,000). [2]

A key finding is that regardless of pre-retirement asset size, rates of decumulation are low. Over an 18-year period following retirement, median assets declined only 24 percent for the low asset group of retirees--from $31,740 immediately after retirement to $24,000 eighteen years later. This is somewhat intuitive: such households have very few assets and they face a lot of uncertainties. So, it is not "irrational" for them to hold on to their assets as long as possible.




However, similar patterns hold when assets are greater: for the moderate asset group, median non-housing assets declined 27 percent

[1] Non-housing assets include any real estate other than primary residence; net value of vehicles owned; Individual Retirement Accounts (IRAs), stocks and mutual funds, checking, savings and money market accounts, certificates of deposit (CDs), government savings bonds, Treasury bills, bonds and bond funds; and any other source of wealth minus all debts (such as consumer loans).
Non-housing assets do not include assets in employer-provided retirement plans such as 401(k)s.
[2] All numbers are measured in 2015 dollars.



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(from $333,940 immediately after retirement to $243,070 18 years later). And indeed, low rates of decumulation actually become more pronounced for retirees with the most substantial assets. For those starting with a median of $857,450 immediately after retirement, the decumulation rate was less than 11 percent (to $763,900 18 years later).

The analysis further shows that retirees with pension income have lower decumulation rates than those without: in the two decades after retirement, pensioners—who started retirement with much higher levels of assets than non-pensioners—saw assets decline by about 4 percent (from $219,120 to $210,991). In comparison, during the same period, median non-housing assets of retirees without pensions dropped 34 percent (from $68,500 to $45,000).

So why are retirees not spending down their assets? First, there are the uncertainties. People don't know how long they are going to live or how long they have to fund their retirement from these assets. Then there are uncertain medical expenses, which could be catastrophic if someone has to stay in a long-term care facility for a prolonged period. Second, some of these assets are likely to be passed on to heirs as bequests. But, there are also other possibilities. Slow asset decumulation could be due to lack of financial sophistication, or failure to understand what constitutes a "safe" rate for spending down assets. Or, there could be a behavioral impediment: after building a saving habit throughout their working lives, people may find it challenging to shift into spending mode. They keep building up their assets or hold on to their assets as long as possible.

However, it is notable that having guaranteed income for life, such as a pension, didn't make retirees more likely to spend down their assets. To the contrary, of all the subgroups studied, pensioners had the lowest asset spend-down rates. This suggests that if the goal is to avoid spending down assets, pensioners are best suited to achieve it. In other words, if retirees seek to limit their spending to their regular flow of income (such as pension, Social Security income, or other annuity income), then pensioners are indeed best suited to avoid asset decumulation, as they have more regular income than others.

If retirees are determined to preserve their assets and not to spend them down, this creates important implications--ranging from the type of retirement products offered to how retirement preparedness is assessed. However, if such drawdown patterns are the consequence of behavioral biases (e.g., inability to switch from accumulation to decumulation mode) or lack of education on how to spend down retirement savings, this has quite different implications when it comes to necessary tools and support for retirees as they seek to manage their assets in retirement.

The EBRI report, "Asset Decumulation or Asset Preservation? What Guides Retirement Spending?" is published as the April 3, 2018 EBRI *Issue Brief*, and is available online here.

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