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EBRI Finds Evidence that Many Retirees Aren't Spending Down Their Retirement Assets

New research by the Employee Benefit Research Institute (EBRI) finds that retirees are not spending down their accumulated assets to fund their retirement needs—even though the risk of large out-of-pocket health care costs may be modest.

The EBRI *Issue Brief*, "Asset Decumulation or Asset Preservation? What Guides Retirement Spending?" shows that even when assets are plentiful or when there is guaranteed income available to ensure that retirees will not run out of money, rates of decumulation are low:

- While some retirees had spent down most of their non-housing assets in the first 18 years following retirement, about one-third of all sampled retirees had *increased* their assets over that period.[1]
- Depending on the amount of non-housing assets immediately before retirement, the median retiree had spent down between 11.8 and 27.2 percent of their assets during the first two decades of retirement, with the lowest percentage of spending belonging to those with the highest level of pre-retirement assets.
- Pensioners were much less likely to have spent down their assets than non-pensioners. During the first 18 years of retirement, the median non-housing assets of pensioners (who started retirement with much higher levels of assets) had gone down only 4 percent, compared to a 34 percent decrease for non-pensioners.

"The evidence shows that many retirees are reluctant to spend down their assets," notes Lori Lucas, president and CEO of EBRI. "This likely has to do with all of the financial uncertainties connected with retirement. People don't know how long they are going to live or how long they have to fund their retirement from their assets. They may also be afraid of facing catastrophic health care costs if they need to stay in a long-term care facility for a prolonged period."

A companion EBRI *Issue Brief* sheds some light on what retirees are paying in out-of-pocket medical expenses. In "Cumulative Out-of-Pocket Health Care Expenses After the Age of 70" EBRI finds that that while some long-lived (ages 95 or higher) elderly report very high cumulative out-of-pocket medical expenses, the median cumulative out-of-pocket medical expenses (excluding insurance premiums) for the long-lived elderly is quite modest at $27,000.

Notes Sudipto Banerjee, who wrote both *Issue Briefs* while a research associate at EBRI: "It is true that at the extremes, people may incur significant out-of-pocket health care expenses." In fact, 10 percent of the older cohort say they racked up more than $172,000 in out-of-pocket medical expenses, and 5 percent report spending more than $269,000 in out-of-pocket medical expenses. But Banerjee notes that large nursing home expenses are rare: "Our research finds that while the majority of long-lived elderly do enter a nursing home, fewer than one-third incur out-of-pocket nursing home expenses." And, while nursing home costs can be substantial for some, median out-of-pocket nursing home expenses are zero at all ages, and moderate even when conditioned on nursing home entry.[2]

- For those who died between the ages of 70 and 74, the median out-of-pocket cost (conditioned on entering a nursing home) was $3,200.
- For the long-lived elderly, it was $21,800.

Says Lucas: "The bottom line is that 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 or lack of education on how to safely 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 full reports are published in the April 3 *Issue Briefs*; "Asset Decumulation or Asset Preservation? What Guides Retirement Spending?" is available online here, and "Cumulative Out-of-Pocket Health Care Expenses After the Age of 70" is available online here.

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[1] Non-housing assets do not include assets in an employer-provided retirement plan such as a 401(k), which could be a significant portion of savings. However, any 401(k) funds rolled over to an IRA are included.

[2] The *Issue Briefs* use data from the Health and Retirement Study (HRS), which initially excludes institutionalized persons (i.e. those in prisons, jails, nursing homes, long-term or dependent care facilities). This has the potential to mute the right hand tail for long-term care costs. Some research has shown that subsequent rounds of surveys properly represent the institutionalized population.