People with pensions conserve their savings: EBRI

By Editorial Staff *Thu, Apr 19, 2018*

'Instead of spending down, a large number of retirees are continuing to accumulate assets throughout retirement,' writes Sudipto Banerjee of T. Rowe Price, who prepared the report on decumulation for the Employee Benefit Research Institute.

The Employee Benefit Research Institute (EBRI) has been studying changes in the non-housing assets of certain retirees during their first 20 years of retirement (or until death, if earlier). This month it issued a **bulletin** on the topic, "Asset Decumulation or Asset Preservation? What Guides Retirement Spending?"

The bulletin relied on the Health and Retirement Study (HRS), and on the Consumption and Activities Mail Survey (CAMS), a supplement to HRS. All numbers are measured in 2015 dollars. But the report focused on existing retirees, a high percentage of whom still have pensions; it may have limited applicability to future retirees. Also, IRA savings were included in the study, but not current 401(k) assets.

"To me, the implications for national policy are not immediately clear," the bulletin's author, Sudipto Banerjee, told *RIJ* in an email. "We need more research to understand why people are behaving in this way. There could be several reasons. Like, the inability to safely convert their assets into income, the need to self-insure against various uncertainties, behavioral challenges (like becoming a spender from a saver) and personal legacy goals. Once we understand the relative importance of these factors we might be better able to address the national policy implications."

The studied showed that:

- Retirees generally exhibit very slow decumulation of assets.
- Within the first 18 years of retirement, individuals with less than $200,000 in non-housing assets immediately before retirement had spent down (at the median) about one-quarter of their assets; those with between $200,000 and $500,000 immediately before retirement had spent down 27.2%. Retirees with at least $500,000 immediately before retirement had spent down only 11.8% within the first 20 years of retirement at the median.
- About one-third of all sampled retirees had increased their assets over that period.
- Pensioners were much less likely to have spent down their assets. 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%, compared to 34% for non-pensioners.

- The median ratio of household spending to household income for retirees of all ages hovered around one, inching slowly upward with age. This suggests that majority of retirees had limited their spending to their regular flow of income and had avoided drawing down assets, which explains why pensioners, who had higher levels of regular income, were able to avoid asset drawdowns better than others.

In discussing his results, Banerjee, now at T. Rowe Price, wrote:

“Why are retirees not spending down their assets? There are probably a number of reasons. 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 that could be catastrophic if someone has to stay in a long- term care facility for a prolonged period.

“Of course, if people have to self-insure against these uncertainties, they need to hold onto their assets. Second, some of these assets are likely to be passed on to their heirs as bequests. But, what percentage of actual bequests are planned vs. accidental is an open question. Third, another possible reason for this slow asset decumulation rate could be lack of financial sophistication, or in other words, people don’t know what is a safe rate for spending down their assets.

“So, they are erring on the side of caution. Finally, some of it could be just a behavioral impediment. After building a saving habit throughout their working lives, people find it challenging to shift into spending mode. They continue to build up their assets or hold on to their assets as long as possible.

“Do these results mean no one is running out of money in retirement? No. Some retirees are running out of money in retirement (as shown in section 3 below). At the same time, instead of spending down, a large number of retirees are continuing to accumulate assets throughout retirement.