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## Stick to a Plan? Few Retirees Do: Hearts & Wallets

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By Editorial Staff      Wed, Dec 30, 2015

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*'Many retirees practice a "chunk or nothing" spending pattern, consuming from 0% to 9% or more of principal annually rather than drawing down savings at sustainable rates,' according to a new study from the research firm Hearts & Wallets.*

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Advisors preach “safe withdrawal rates” to their retired clients, but many retirees ignore strict financial guidelines and spend erratically. And it’s not uncommon for retirees to designate the same pot of money for legacies *and* longevity insurance—a practice that keeps their would-be heirs in suspense.

These insights and many more are revealed in two new studies by the research firm Hearts & Wallets. The studies are *Funding Life After Work: Impact of Parenthood & Wealth Transfer on Retirement Solutions for Baby Boomers* and *Portrait of U.S. Household Wealth*.

*Funding Life After Work* explores a variety of Boomers’ attitudes about money that might interest advisors, including:

- Sources of income in retirement
- Decisions about whether to tap into capital
- Sources of advice
- Robo-advisors
- Most important financial needs

The study found, for instance, that many retirees practice a “chunk or nothing” spending pattern, consuming from 0% to 9% or more of principal annually rather than drawing down savings at sustainable rates. This behavior is thought to spring from a conflict between shame about spending capital and a desire to do so, or to occur among parents who worked longer than non-parents to provide for their children’s education.

### Parent traps

The *Portrait of U.S. Household Wealth* study focuses on 5.2 million households ages 53–70 with \$500K to \$5 million in investable assets who control about \$10 trillion of the estimated \$21 trillion in total Boomer savings.

Hearts & Wallets surveyed three consumer groups that make up 82% of these households and control 84% of the assets. The groups are “Non-Parents” (1.8 million households with no children who have about \$3.5 trillion), “Parents Spend All” (1.0 million households

headed by parents who plan to spend all their assets in retirement and have about \$1.7 trillion), and “Parents Leave Inheritance” (1.5 million households headed parents who plan to leave a legacy and have about \$3.1 trillion).

“Parents who plan to leave a legacy aren’t necessarily more generous than those who plan to spend it all,” Laura Varas, Hearts & Wallets co-founder and principal, said in a press release. They like to say that they’re putting money aside for their children, but simultaneously they see that money as a potential emergency fund for themselves, if they need it.

Consciously or unconsciously, this form of double-think serves a purpose. “To them, leaving an inheritance is the ultimate insurance policy,” Varas said. “They may plan to leave only a couple of \$100,000 or so, but having that goal reins in their spending and guides their retirement funding decisions.” It also has a downside, she added: “They could afford to be a little less frugal and risk averse if they had sources of advice or solutions that acknowledged this fear.”

The “Parents Leave Inheritance” is primarily concerned with how much money they have and the location of important documents and paperwork, the studies found. The “Parents Spend All” group expresses equal concern for their children, but worries that a pre-determined inheritance might make children irresponsible. Retirees without children have a different problem altogether: they tend to worry about not having anyone to help them when they become frail.

“Non-parents more often say they are unsure who will help them when they become infirm. It’s not so much about the money, but about having a trusted caretaker to take them to the doctor and help with bill-paying. Parents often see children in these roles,” Varas said.

### **Income, advice and needs**

All segments express frustration with the low-interest rate environment that forces them to take more financial risk than they would like to. Even if they own annuities, they may be unsure about when to take annuity income or how annuities affect their Required Minimum Distributions (RMDs).

In other findings: Boomers look to advisors, accountants or estate planners for answers. Finding the right professional is challenging for them, especially given their perception that advice will be “free.” Good advisors continue to encounter the mistrust generated by advisors who didn’t meet clients’ expectations. Few older investors even know about

“robos.”

In terms of financial services, the survey participants wanted help with investment selection, optimizing income and minimizing taxes, charitable giving and estate planning, and long-term care expenses. The “Parents Spend All” and “Non-Parents” groups were equally interested in income and tax optimization solutions, because of their low wealth transfer needs and willingness to spend principal. A clear majority of those surveyed said they are willing to pay someone to tell them how much they can afford to spend and to advise them on tax-smart charitable giving and estate planning.

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