nextavenue
where grown-ups keep growing

The Surprising Amount Retirees Pull Out of Savings

By Rich Eisenberg | March 3, 2015

People! Why won't they behave the way financial advisers and economists tell them to when it comes to their retirement and their money?

Last week, Merrill Lynch and Age Wave came out with a survey of retirees which found not only didn't they all downsize when retiring, 30 percent who've moved since they retired have upsized their homes.

Now, a fascinating survey by the Hearts and Wallets financial research firm has discovered that many retirees are completely ignoring a time-honored rule of thumb about retirement withdrawals.

The 4 Percent Rule and the Reality

Since financial adviser Bill Bengen came up with his "4 percent rule" in the 1990s, we've been told that to avoid outliving your money, you should withdraw 4 percent of your investment portfolio (plus inflation) a year. Some now say that in today's low-rate environment, a withdrawal rate of 2 percent or 3 percent is more advisable.

But when Hearts and Wallets surveyed 1,209 households age 65 and older who had assets of more than $100,000, the researchers found that 12 percent took out over twice the 4 percent rule last year — 9 percent or more. Conversely, 28 percent withdrew less than 1 percent and many of those retirees didn't withdraw a dime.

'Chunks or Nothing'

Hearts and Wallets calls the results "the chunks or nothing" phenomenon. Some retirees take out a chunk of their money to live, or splurge, on; some take out nothing or close to it.

I asked Laura Varas, co-founder of Hearts and Wallets and former Fidelity exec: What's going on?

Among the retirees who are skittish about pulling money out of savings, she said, many have "a fear around miscalculating." They don't know how long they'll live and worry that they'll outlast their money if they withdraw too much of their savings.

That theme rang out in today's release of Retirement Security 2015: Roadmap for Policy Makers and Americans' View of the Retirement Crisis from the National Institute on Retirement Security. In that survey of 801 Americans, 67 percent said they'd be willing to take less in salary increases in exchange for guaranteed income in retirement.

Others in Hearts and Wallets' “nothing” camp said didn't make a retirement savings withdrawal because they either are still working; don’t need the money due to their pensions and Social Security or expect that their expenses will drop.

The 'Shroud of Shame'

Some of the frugalistas considered themselves “angelic and virtuous” and, Varas said, felt the “chunks” retirees were “living beyond their means and maybe had a gambling problem.”

Said Varas: “That made me a little bit sad.” While she understands the economic rationale for withdrawing no more than 4 percent a year, Varas said, she thinks retirees who want to take more money out in a given year to enjoy life — by, say, traveling — ought to, if they can afford it.

“I thought there was a shroud of shame around something that could be joyful,” said Varas.

A straitjacketed withdrawal strategy isn’t a joyful way to retire. “I don’t think it needs to be feast or famine; people want to have dessert occasionally,” Varas said.

Why Retirees Withdraw 'Chunks'

Those pulling out substantial “chunks” are doing so because they either: want to pay for one-time expenses (both good and bad); have health issues; have lost their jobs or feel they’re not getting enough return on their savings.

Hearts and Wallets’ researchers would like to see financial services companies move away from annuitized payouts forcing their retired owners to receive the same amount of money year in, year out.

The recent Internal Revenue Service notice allowing lifetime income through target date funds would further encourage a set-it-and-forget-it withdrawal strategy by expanding the use of income annuities in 401(k)s and other employer-sponsored retirement plans. Members of Hearts and Wallets' focus groups weren’t crazy for that idea. Said one woman: “Anything I don’t have control over I don’t want.”

How to Set Retirement Withdrawals

How should you devise a retirement withdrawal strategy?

To start, take stock of all your current and anticipated financial resource. Estimate how much you’ll receive from Social Security. (Mark Miller just wrote an excellent guide to tools and services that can help you on the Social Security end.) And be sure you have enough insurance to cover potential risks. Then, plug your numbers into a good, free online calculator that lets you test out various “what if” scenarios.

Financial writer Chris Farrell says: Take a “safety first” approach and withdraw enough to maintain your standard of living in retirement, rather than forcing yourself into living a 4 percent life that's based on historic and prospective investment rates of return. Investments such as U.S. Treasury Inflation Protected Securities (TIPS) can help; they're inflation-adjusted Treasuries.

Once you've run the numbers to see how much you can withdraw, Varas said, "Give yourself space to take out some principal and have some fun and enjoy your last chapter. Don't feel so bad about doing it. That's what the money's there for."

Varas said she hopes her firm's report will spark innovation and creativity among financial services product inventors to allow more people to take a "chunks" approach to retirement savings withdrawals if they want.

Then, she noted, more retirees will be able to have "moments of joy and do so safely."

Original URL: http://www.nextavenue.org/blog/surprising-amount-retirees-pull-out-savings