PEAK65® Alliance for Lifetime Income

NEWS RELEASE

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RETIREES SPEND THEIR LIFETIME INCOME, RATHER THAN SAVINGS

A New Study by Retirement Income Institute Fellows David Blanchett and Michael Finke Finds Retirees Spend More with Lifetime Income

FOR IMMEDIATE RELEASE

Washington, D.C., April 8, 2025 – Even if they can easily afford it, retirees are reluctant to spend savings for a more enjoyable lifestyle. Instead, retirees spend significantly more from their sources of lifetime income – such as Social Security, pensions, and/or annuities – than they do from their savings in IRAs and other retirement accounts.

Those findings are part of a new research study, **"Retirees Spend Lifetime Income, Not Savings,"** by David Blanchett and Michael Finke, Research Fellows in the Retirement Income Institute (RII) at the Alliance for Lifetime Income. This research builds on their groundbreaking RII paper last year – **"Guaranteed Income: A License to Spend"** which demonstrated that people can enjoy retirement more fully if they allowed themselves to spend money more freely.

> "Overall, the analysis suggests that converting savings into lifetime income could increase retirement consumption significantly, especially for married households," the study notes. "Our analysis clearly demonstrates that households spend differently across sources of wealth. Retirees spend a much higher percentage of their lifetime income (about 80%) and spend about half the amount that they could safely spend from other sources."

The study also found retirees spend a higher rate of their savings after the federal government requires distributions from their retirement savings accounts. Retirees seem to view the forced asset distribution – known as Required Minimum Distributions (RMDs) – as income and spend it at a higher rate than they spend from other savings. RMDs are the minimum amounts people must withdraw annually starting at age 73 from qualified investment accounts to avoid penalties to the IRS. Accounts subject to RMDs include traditional IRAs, SEP IRAs, and most employer-sponsored retirement plans like 401(l)s.

"Overall, these findings have important implications for the current and future state of retirement in the United States given the rise of defined contribution (DC) plans as a more prevalent funding source for retirement," the authors say. "DC plans are principally focused on growing assets and typically are not explicitly focused on generating income. Therefore, unless steps are proactively taken to ensure retirees effectively use savings to fund spending, this analysis suggests households are likely to continue under-consuming in retirement potentially at even greater levels."

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Blanchett and Finke point out steps can be taken to help retirees view their savings as income and therefore feel freer to spend: "Financial institutions that are aware of the tendency to bracket investment decisions differently than lifetime income can focus on reframing wealth as income or automatically liquidate investments to create the appearance of income. For example, managed payout funds designed to distribute a percentage of wealth each year can help retirees frame savings as income."

The Fear of Knowing How Much You Can Spend

Part of the reason retirees are reluctant to spend more freely is the complexity of navigating a retirement system designed with a focus on saving and investing (accumulation) rather than spending (decumulation of assets).

"Estimating how much income can be withdrawn from investments in retirement is far more complex than receiving a monthly pension payment," the study notes. Complicating factors for retirees trying to determine how much to spend every year include a "limited financial knowledge, an unknown lifespan" and "an array of available financial resources to consider, including Social Security, pension, wages, and investment assets inside and outside of retirement accounts…"

To better understand how people 65 and older are spending money, the study's authors analyzed data from the Health and Retirement Study, which is an ongoing nationally representative survey of approximately 20,000 Americans over 50 and supported by the Social Security Administration and National Institute on Aging.

In the new RII study by Blanchett and Finke, two broad categories of available financial resources or assets were considered – income and savings:

- Income was separated into three groups: lifetime income (Social Security, pensions, and annuity income), earnings (wages and salaries for those who have not fully retired), and capital income (which includes income from businesses, rental property, dividends and interest, and trust funds or royalties).
- Savings were broken into qualified (defined contribution balances, IRAs, etc.) and non-qualified monies held in taxable accounts.

"Our analysis found much higher spending rates from lifetime income sources than from wages or capital income," the study noted. "Roughly 80% of lifetime income is spent, while less than half of wage income and capital income are spent. In addition, 65-year-old couples were found to be spending just 2% of their savings, which is roughly half of the commonly cited '4% rule' and even lower than most recent estimates, suggesting 5% is a more reasonable starting place."

> "Unless people purposefully want to leave behind a large bequest when they die, many retirees are denying themselves the opportunity to enjoy life by spending more of their savings," said Blanchett, Head of Retirement Research at PGIM DC Solutions.

> "I don't think people purposefully want to horde their savings; they are just finding it difficult to view savings as a potential form of retirement income," added Finke, Professor and Frank M. Engle Chair of Economic Security Research at the American College of Financial Services. "They are able to make that adjustment when they receive annuity and RMD payments, so there is a path to getting over this behavioral barrier."

RII's Previous Research into Spending in Retirement

In a June 2024 study, Guaranteed Income: A License to Spend, Blanchett and Finke, determined that retirees with assets that annuitize income spend twice as much as retirees with an equal amount of non-annuitized savings.

Blanchett and Finke find that every $1 of assets converted to guaranteed income could result in roughly twice the equivalent spending compared to money left invested in a portfolio. This effect suggests that the explanation for under-spending of non-annuitized savings among retirees is likely both a behavioral and a rational response to longevity risk.

Their analysis corresponds with findings in the Alliance's 2024 Protected Retirement Income and Planning (PRIP) Study, in which 46% of the 2,516 consumers aged 45 to 75 surveyed acknowledged that spending their savings gives them anxiety.

About The Alliance for Lifetime Income

The **Alliance for Lifetime Income (ALI)** is a non-profit (c)(6) consumer education organization based in Washington, D.C., that creates awareness and educates Americans about the value and importance of having protected income in retirement. The Alliance provides consumers and financial professionals with unique educational resources and interactive tools to use in building retirement income strategies and plans. We believe annuities – one of only three sources of protected lifetime income – can be an important part of the solution for retirement security in America. The Alliance's **Retirement Income Institute** houses the leading retirement scholars and experts who create evidence-based research and analysis, with practical ideas and actions to help protect retirees.

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