RETIREE SPENDING

CHANGING THE HABIT OF A LIFETIME

Investwise
Financial Planning
Invest In Your Future...

Being rich is having money;
being wealthy is having time.

– Margaret Bonnano

Retiree Spending – Changing the Habit of a Lifetime

Habits built over 40+ years can be difficult to break. It can be very challenging for some of us to break the habit of a lifetime – decades working and accumulating enough wealth for retirement years. And while some may be ready to stop working full-time, actually spending hard earned savings and turning those assets into a fulfilling retirement can prove tricky for some.

Research shows that retirees actually experience a decline in real spending throughout their retirement. Research by David Blanchett of Morningstar, 'Estimating the True Cost of Retirement'[1] finds that, retiree spending decreases slowly in early years, more rapidly in the middle years and then less slowly in the final years.

A study by Blackrock in 2018[2] showed that, on average across all wealth levels, many retirees aren't spending enough of their money and most current retirees still had 80% of their pre-retirement wealth. One-third even grew their assets over the course of retirement. The key reason given by those surveyed was fear of ill health and associated costs in later life. The study found that retirement compels some retirees to protect assets.

1 Estimating the True Cost of Retirement (morningstar.com)

2 Blackrock data was analyzed by BlackRock and the Employee Benefit Research Institute.

Other studies highlight the extent of the fear of not having enough wealth. A majority of Americans (61%) are more afraid of running out of money than they are of death, according to the 2023 Annual Retirement Study from Allianz Life Insurance Company of North America[3].

Financial security is key for the majority of retirees over maximising spending; and relatively few retirees spend down their hard-earned money even though they may have robust financial plans in place. At Investwise we see this trend in Ireland and it's similar in many other countries.

For many years, financial advisers have recommended what's known as the 4% rule to maintain a consistent standard of living in retirement which means in the first year of retirement you can withdraw 4% off your portfolio's value and then adjust that for inflation each year, without running out of money.

Bill Bengen a former engineer and retired financial planner introduced this model in the early 1990s to see how much retirees should withdraw annually without running out of money.

Dave Quinn, MD, Investwise Financial Planning, said, "Bengen's theory is very likely the inspiration for the government setting minimum drawdown rates at 4%, which increases to 5% from age 70. Perhaps this theory is too rigid and not flexible enough for the reality of life. While it may suit some retirees very well it could also mean that some people don't enjoy the fruits of their hard work and miss out on wonderful experiences."

'Spendaphobia' – The Fear of Spending Money

Research tells us that many retirees fear running out of money and this has huge impact on a retiree's ability to spend what they have worked so hard to save over their lifetime.

David Quinn, "Many retirees are keen to spend in their early retirement years however fear of investments doing poorly or unexpected expenses arising can induce 'spendaphobia'. As a result, many retirees underspend in their 60s and early 70s. When most people reach their late 70s, maybe that classic car or that 5-star holiday doesn't seem as appealing.

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But more practical ways of spending can mean important time with family in Australia, for example. This is doable in later years if you fly business/first class or break up the trip with premier stop over!"

At Investwise we take all the complexity out of planning for retirement and help our clients make the right decisions, ultimately so that they have the confidence and trust in their plan to enjoy the fruits of their hard earned money in their 60s, 70s, 80s and beyond.

3 2023 Annual Retirement Study - Allianz Life conducted the 2023 Annual Retirement Study online survey in February and March 2023 with a nationally representative sample of 1,000 individuals age 25+ in the contiguous U.S.

Main Factors of Underspending in Retirement

What are the main factors that drive underspending in retirement? David Quinn maintains **that the single biggest concern among retirees in Ireland is housing for their children because of the rising cost of borrowing and purchase of homes**.

In addition:

- Some want to leave a legacy to the next generation.
- Longevity – living 20-30 years after retiring.
- Some want to keep a large sum protected for unknown expenses or in case they need expensive long-term care at the end of their lives.
- Helping their adult children buy their first house.
- Lack of confidence in the economy, cost of housing, inflation rises and geopolitical issues negatively affecting the economy.

David Quinn, MD, Investwise Financial Planning:

"At Investwise we work and plan with our customers, often over a 10-20 year period, and that retirement planning creates certainty and gives our clients a clear vision for their retirement.

"We advise clients to plan early and properly for retirement. Before we retire, we have an opportunity to focus on what we want, explore what's on that bucket list and how best to go about achieving that.

"It is important to carefully consider investment choices. It is not enough to simply match risk profiles. Many advisors rely on the default investment strategies – 'shoe-horning' clients into default multi asset investment funds depending on the results of a simple risk questionnaire. These default investments may be completely inappropriate to a client's needs, but they solve a compliance and risk problem for the advisor. There is a need for a more client focused 'bespoke' approach."

Will Your Retirement Pot Last?

One of the first questions almost everyone approaching retirement asks is whether their savings will last. These are some of the steps you can take to help make your money work for you in retirement:

- Get advice from an independent, certified financial adviser.
- Create a financial plan which will help figure out what a comfortable retirement means for you.
- Develop a detailed understanding of monthly spending.
- Set out a wish list for bucket list spending items and quantify the amounts.
- Set out a gifting plan for children and grandchildren, using annual gift exemptions and longer term estate plan.
- Ensure you have a 'bespoke approach for you' when it comes to investment choices.

Considered Financial Advice is Key

Financial Planning can't eliminate all anxiety and fear, however it does give you the license to enjoy retirement in a planned and organised way.

Considered financial advice is so much more than fund price data or the ebb and flow of stock market values. It should never simply be transactional but instead a holistic approach to life planning through a financial lens.

Our clients today are planning towards that financial freedom as opposed to simply buying stocks and shares. They are focusing on key life milestones and putting plans in place to make sure that when these moments arrive, they have sufficient funds available to fulfil their aspirations. A real understanding of a client's goals, and their journey towards those goals, is key to giving good quality advice.

Today, conversations between financial planners and their clients are focused on cashflow planning for educational expenses, life possibilities as empty nesters or retirement. Instead of simply seeking the latest fund prices clients want professional advice to make their hard-earned money work harder, and rightly so. Oftentimes, the real value of professional financial planning and advice is understanding a client's relationship with money, helping them to become more self-aware about their personal money management and supporting them to build good financial habits.

At Investwise, we do this operating a fee-based charging model rather than a product commission system. While still relatively rare this is becoming a more common model for financial advice in Ireland. Clients should consider several factors when deciding what charging model to engage.

1. What are you trying to achieve by getting financial advice?
2. Are you buying advice or a product?
3. What is the cost of this advice?
4. What is the value of the financial advice?

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