

A Closer Look: Decumulation Confusion

Michael A. Webb, CEBS, Vice President
Cammack Retirement Group

Just as the accumulation of sufficient assets for retirement is critical to a successful retirement outcome, proper decumulation, or the spending of those assets throughout retirement, is equally important. In fact, with the aging of the Baby Boomer generation and the increasing number of individuals retiring, decumulation has become a vital topic of retirement plan discussions. And yet, little has been published on what happens to assets once an individual arrives at retirement.

However, two recent pieces shed some light on the decumulation challenge. The first, from [MarketWatch](#), discusses why retirees should not be concerned with a bear market, since recovery times are generally shorter than people fear. The piece cited an Allianz Life retiree survey which astonishingly found that more baby boomers indicated that their greatest fear in retirement was not death (39% ranked this as their greatest fear), but outliving their money (61%)! Think about that: less than 40% of retirees ranked death as their primary fear. It appears as though some may prefer being rich and dead to being poor and alive! Clearly, the topic of decumulation, and how to protect oneself from running out of money, is not understood.

The fear of running out of money causes some retirees to spend very little of their savings. While this may serve as a perk for beneficiaries, it can cause stress that, in some cases, may even shorten life expectancy. One reason for this scenario is that, prior to retirement, individuals are taught to save rather than spend. Since it is difficult to unlearn habits, many arrive in retirement with the same mentality. The fear of outliving one's money prevents some retirees from touching their assets until they are required to do so, at age 70½; and even then they do so reluctantly.

A [Forbes](#) article explains why worrying about investment performance (e.g., a bear market) should not be the top priority for retirees who are decumulating. The piece shares a case study on an individual who is one decade into retirement and highlights why retirees should not focus on investment performance at the expense of proper risk management. Proper risk management means reducing the risk of losing the current standard of living as an individual ages. It includes managing healthcare and healthcare insurance expenses, the potential financial needs of adult children, long-term care insurance, unexpected expenses, and unexpected negative impacts to income (of which, a prolonged bear market

would be an example). The author, by his own admission, ignored most of these issues, focusing instead on optimizing the investment performance of his retirement plan portfolio, which proved to be a misguided effort.

These two articles provide intriguing perspectives on the same issue; one citing a survey of a seemingly irrational fear among those about to retire, and the other stating that, while a healthy concern about maintaining one's standard of living is valid, obsessing over a bear market, or investment performance in general, is the wrong approach to maintaining that standard, and should take a back seat to proper risk management.

WHAT DOES THIS MEAN FOR PLAN SPONSORS?

While plan sponsors spend a great deal of effort encouraging retirement plan participants to accumulate assets, the lack of education on decumulating those assets have clearly left retirees confused. Many retirees are focused on the wrong things, such as outliving their money or investing it optimally, instead of focusing on spending assets in a prudent fashion and actually enjoying their retirement! In fact, some people are even working well past retirement age, not because they must, but because they fear the transitions that retirement will bring. This can pose a problem for retirement plan sponsors and participants alike. As part of their communication efforts, plan sponsors should not only educate participants on the importance of saving for retirement, but also on how to appropriately spend those assets once they arrive in retirement.

Editor's Note: "A Closer Look" expands some of our most popular Top of Mind blog posts into full-length articles

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For more information on our services, please contact **Mike Volo**, Senior Partner, at **781.997.1426** or **mvol@cammackretirement.com**.

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