Tapping Assets in Retirement: Which Assets, How and When?

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Policy Abstract

Just two or three decades ago retirement saving in the United States was based heavily on employer-provided defined benefit plans that provided distributions in the form of lifetime annuities. With the transition to 401(k) and similar programs, the decision about when and how to withdraw retirement resources rests instead with the individual. And to date, assets held in personal retirement accounts have rarely been annuitized. So what are the drawdown patterns for these assets? And how do they relate to the drawdown of other asset categories? Our earlier work focused on the drawdown of home equity in retirement, concluding that home equity is typically not used to support general consumption in retirement, but is instead held as a buffer against shocks, such as the death of a spouse or entry into a nursing home. In this study, similar results are found for 401(k)-like accounts and for total wealth in all asset categories. Following retirement, the percentage of dollars withdrawn from personal accounts each year appears to fall below the rate of return earned on existing balances, allowing balances to accumulate further. This is true even after people are required to make minimum withdrawals at age 70½. We find that personal account assets of continuing two-person families tend to increase throughout the age range we consider, through age 85. The retirement assets of continuing one-person families, although much lower than the assets of continuing two-person families, also tend to increase throughout the age range we consider. Personal retirement assets do decline, sometimes precipitously, when two-person families become one-person families through the death of a spouse, divorce, or separation. The overall finding, however, is that in the absence of a major life event, people tend to conserve their assets as they age.