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

JAMES POTERBA, STEVEN VENTI, AND DAVID A. WISE

Just two or three decades ago retirement saving in the United States was based heavily on employer-provided defined benefit plans. Benefits after retirement were typically received in the form of lifetime annuities. Now personal retirement accounts—401(k), IRA, Keogh, and others plans—have become the primary form of saving for retirement. In these plans, it is the participant who has sole control of the accumulated assets, including when and how to withdraw them. To date, assets held in personal retirement accounts have rarely been annuitized. This has raised concern that some participants will draw down assets precipitously and run the danger of outliving their assets. In this paper, we consider the drawdown of assets after retirement, in particular the drawdown of 401(k)-like assets.

A particular question is the extent to which particular asset classes are used to finance general consumption, on the one hand, or saved for other purposes, on the other. For example, in past work, we have considered the drawdown of home equity in retirement. In that work, we conclude 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. Now, as personal retirement plan assets are becoming a major component of wealth in retirement, we seek to determine how these assets are spent. Are these assets spent to finance day-to-day consumption expenditures or, as is the case with home equity, do households conserve these assets to meet extraordinary expenses associated with changes in health or family status?

Our analysis is based on data from two surveys, the Health and Retirement Study (HRS) and the Survey of Income and Program Participation (SIPP). Because the HRS survey does not allow a complete accounting of 401(k) assets or withdrawals for persons no longer employed, we rely more heavily on the SIPP data to focus on the accumulation of retirement assets.

We find that personal retirement assets tend to be conserved, much as home equity is conserved. Following retirement, the percentage of dollars withdrawn from personal accounts each year appears to fall below the rate of return earned on existing balances, allowing balances to accumulate further.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. It may be a function of the particular returns earned over the period that we study, but it may also reflect a decision on the part of participants to avoid drawing down capital unless forced to by a binding minimum distribution requirement. 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. Related to this life transition, it is noteworthy that people who will experience a two- to one-person transition in the future had much lower assets in prior years than people who would later remain as two-person families.

The overall finding, however, is that people tend to conserve retirement assets for a future “rainy day.” Indeed this pattern, which we have now documented for housing equity and for retirement funds, is also true for assets as a whole. We find essentially the same pattern of drawdown when we consider total assets as we find for retirement assets. Unless there is a shock to family status, assets tend to grow with age.

There are several issues that need to be addressed more thoroughly in future work. Some are data issues, such as adjusting for reporting errors and the treatment of anomalous jumps in the raw data. In future work, we will also extend our results from largely descriptive to more integrative econometric methods. We also want to consider drawdown patterns in the context of financial needs in retirement; such as the extent to which “rainy day” saving is an effective approach to asset management in the face of financial risks and one-time events in later life, and how it might be compared with an approach that includes greater annuitization of assets.

The full working paper is available on our website, [www.nber.org/programs/ag/rrc/books&papers.html](http://www.nber.org/programs/ag/rrc/books&papers.html) as paper NB08-06.

James Poterba is Professor of Economics at MIT and President of the National Bureau of Economic Research.

Steven Venti is the DeWalt Ankeny Professor of Economic Policy and Professor of Economics at Dartmouth College and an NBER Research Associate.

David A. Wise is the Stambaugh Professor of Political Economy at the John F. Kennedy School of Government at Harvard, Area Director of Health and Retirement Programs at the National Bureau of Economic Research, Director of the NBER Retirement Research Center, and an NBER Research Associate.

This research was supported by the U.S. Social Security Administration through grant #10-P-98363-5 to the National Bureau of Economic Research as part of the SSA Retirement Research Consortium. The findings and conclusions expressed are solely those of the author(s) and do not represent the views of SSA, any agency of the Federal Government, or the NBER.