Many Retirees Unnecessarily Reduce Their Standard of Living

When it comes to financing their lifestyle in retirement, most people are highly averse to spending their principal. They tend to try to live off their fixed sources of income like social security, pensions, or required minimum distributions from retirement accounts.

According to a recent study by New York Life only 3% of those in retirement spend a fixed percentage of their assets each year.  More significantly, the study shows that most are essentially choosing to self-insure against running out of money by reducing their spending rather than invading principal.

This tends to result in retirees accepting a lower standard of living than is desired, while leaving a much larger inheritance to one’s heirs.  The reality for most of those who are no longer working, their top priority is assuring a comfortable standard of living for the rest of their lives while never running out of money.  In my 28 years of experience, I have found that maintaining one's lifestyle is a much higher priority for most people than maximizing the inheritance of their heirs.

The main thing that causes people to underspend is the fear of running out of money. If we can eliminate this fear, then we can spend more.  In another study, Vanguard found that people who have pensions spend more in retirement than those without pensions. One solution to this is to eliminate the risk of running out of money.

A contractual provision with an insurance company called a lifetime income rider will allow you to spend 7-10% of your principal each year without running out of money.  For those who not only want a lifetime income but also provide an inheritance for their children, there are income riders that can guarantee a lifetime income stream of over 7% per year that can start now but also last for as long as your children are alive.  In other words, your children can inherit that income stream and enjoy it for the rest of their lives as well.

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