Mystery no More: Portfolio Allocation, Income and Spending in Retirement

EBRI Webinar

November 16, 2021

What Drives Retirement Spending?

- Potential financial shocks
- Too much uncertainty
- Lack of knowledge

= Unnecessarily Living Below Means

- Bequest motives
- Joy of nest egg
- Fewer material needs

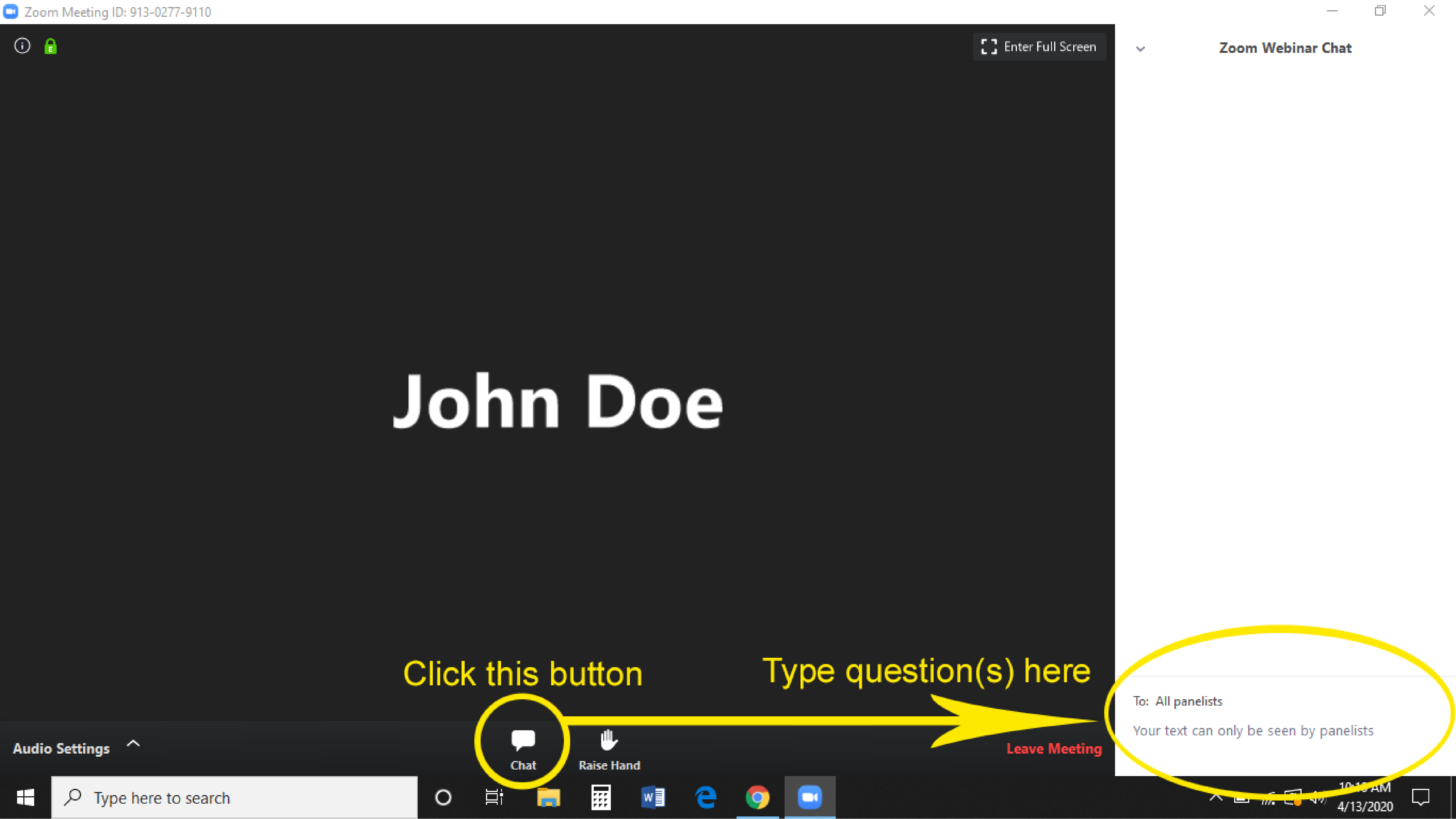
= Retirement Satisfaction

Speakers

Jack VanDerhei, Research Director, EBRI

Katherine Roy, Managing Director, Chief Retirement Strategist, JP Morgan Asset Management

Moderator: **Lori Lucas, President & CEO, EBRI**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EBRIefing: Mystery no More: Portfolio Allocation, Income and Spending in Retirement

November 16, 2021

Questions to be considered today

- How do households generate income in retirement to support their spending and what role do individual retirement account (IRA) distributions play in this process?
- Are required minimum distributions (RMDs) from IRAs taken as a signal for appropriate withdrawal behavior?
  - If not, do those who take out more than the minimum or start before age 70-½ need the distributions to support their spending behavior?
- Are some households continuing a smaller percentage of preretirement spending than would be indicated from industry averages?
  - If so, how many of them would be able to increase their IRA distributions in a "safe" manner?
- What happens to 401(k) and IRA money at retirement?
  - If money is rolled over from a 401(k) to an IRA, what happens to the asset allocation?
  - Does the relative equity concentration in a post-rollover IRA depend on whether the household has guaranteed retirement income other than Social Security (e.g., annuities and/or pensions)?

QUICK REVIEW OF THE DATASET

EBRI and J.P. Morgan Asset Management research collaboration

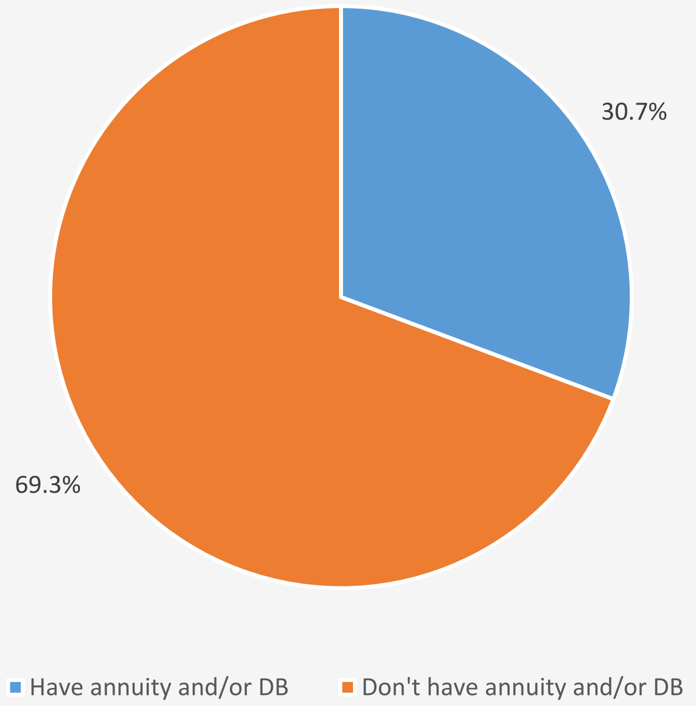
- Chase data of 22 million consumers integrated with:
    - EBRI/ICI 401(k) data
    - EBRI IRA data
- Variables in the database
    - Everything in 401(k) and IRA databases
        - Including withdrawals
    - Income elements
        - Social Security
        - Annuities
        - Pensions
        - ‘Other income’ category = transfers from other financial services firms
    - HH Annual Spending
        - Apparel Services, Cash, Charitable Contributions, Checks, Education, Entertainment, Food Beverage, Healthcare, Housing, Other

Data by year and number of years retired

Year	Years retired									
	(4)	(3)	(2)	(1)	-	1	2	3	4	Total
2014	190	1,838	2,353	3,625	6,321	-	-	-	-	14,327
2015	-	191	1,930	2,442	6,774	8,017	-	-	-	19,354
2016	-	-	221	2,149	4,264	10,427	5,932	-	-	22,993
2017	-	-	-	227	3,103	5,622	8,812	3,798	-	21,562
2018	-	-	-	-	319	3,633	4,773	6,403	2,860	17,988
Total	190	2,029	4,504	8,443	20,781	27,699	19,517	10,201	2,860	96,224

Additional elements in the dataset

Non-Social Security guaranteed income

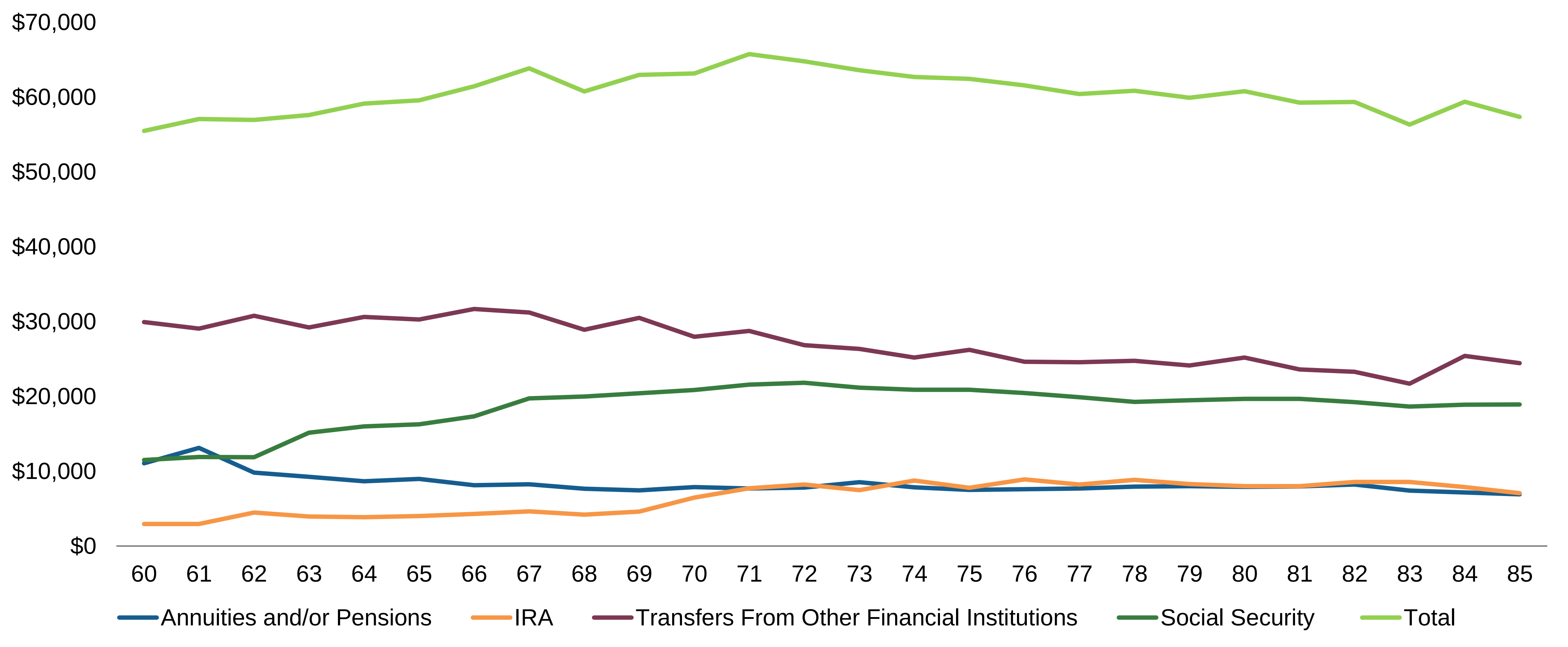


IRA w/d pre and post RMD age

- Those younger than the required minimum distribution age of 70.5
  - who have not taken any IRA distributions (80 percent)
  - who have started IRA distributions (20 percent)
- Those older than age 70.5
  - who take the required minimum distribution (84 percent)
  - who take more than the required minimum distribution (16 percent)

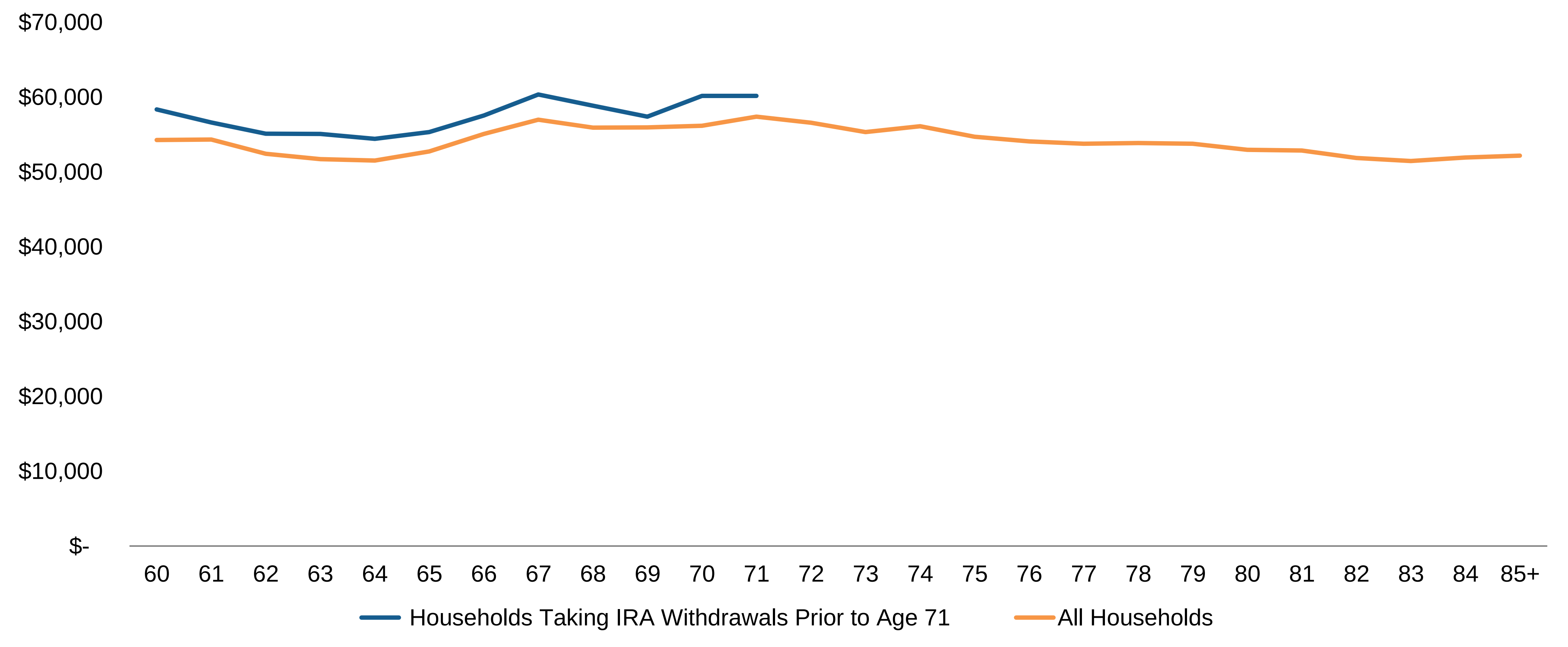
HOW ARE THEY GENERATING INCOME TO SUPPORT SPENDING?

Average Retirement Income Components by Age



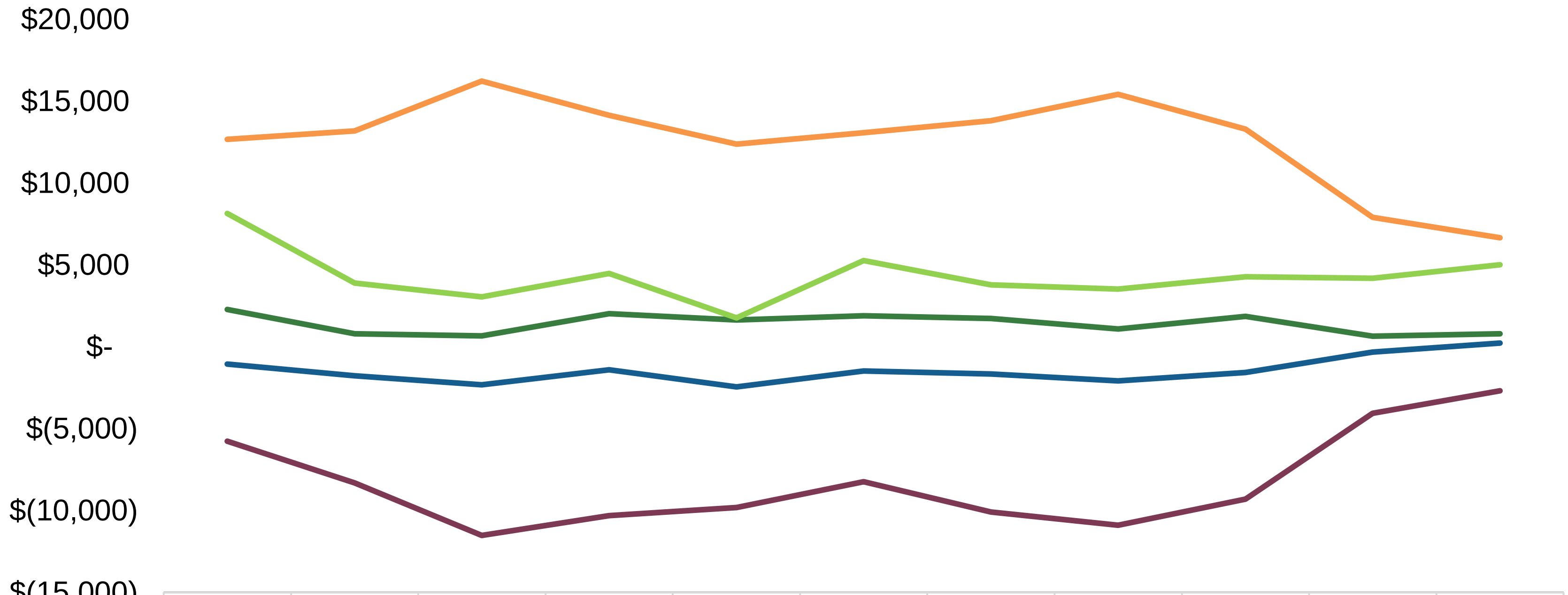
Households Taking IRA Withdrawals Prior to Age 71 Have Higher Average Spending

Average Spending by Age for Households Taking IRA Withdrawals Prior to Age 71 vs. All Households



Those Taking IRA Distributions Prior to Age 71 Have Larger Average Total Income

Differences in Average Retirement Income Components for Those Taking IRA Distributions Prior to Age 71 vs. Entire Sample



	60	61	62	63	64	65	66	67	68	69	70
Annuity/Pension	$(1,050)	$(1,775)	$(2,313)	$(1,401)	$(2,445)	$(1,469)	$(1,656)	$(2,074)	$(1,574)	$(312)	$233
IRA	$12,673	$13,191	$16,229	$14,149	$12,376	$13,087	$13,804	$15,424	$13,298	$7,912	$6,663
Transfers From Other Financial Institutions	$(5,762)	$(8,321)	$(11,528)	$(10,307)	$(9,815)	$(8,238)	$(10,088)	$(10,904)	$(9,306)	$(4,066)	$(2,684)
Social Security	$2,279	$796	$664	$2,032	$1,646	$1,893	$1,723	$1,086	$1,867	$649	$802
Total	$8,140	$3,891	$3,052	$4,474	$1,762	$5,273	$3,784	$3,531	$4,285	$4,184	$5,014

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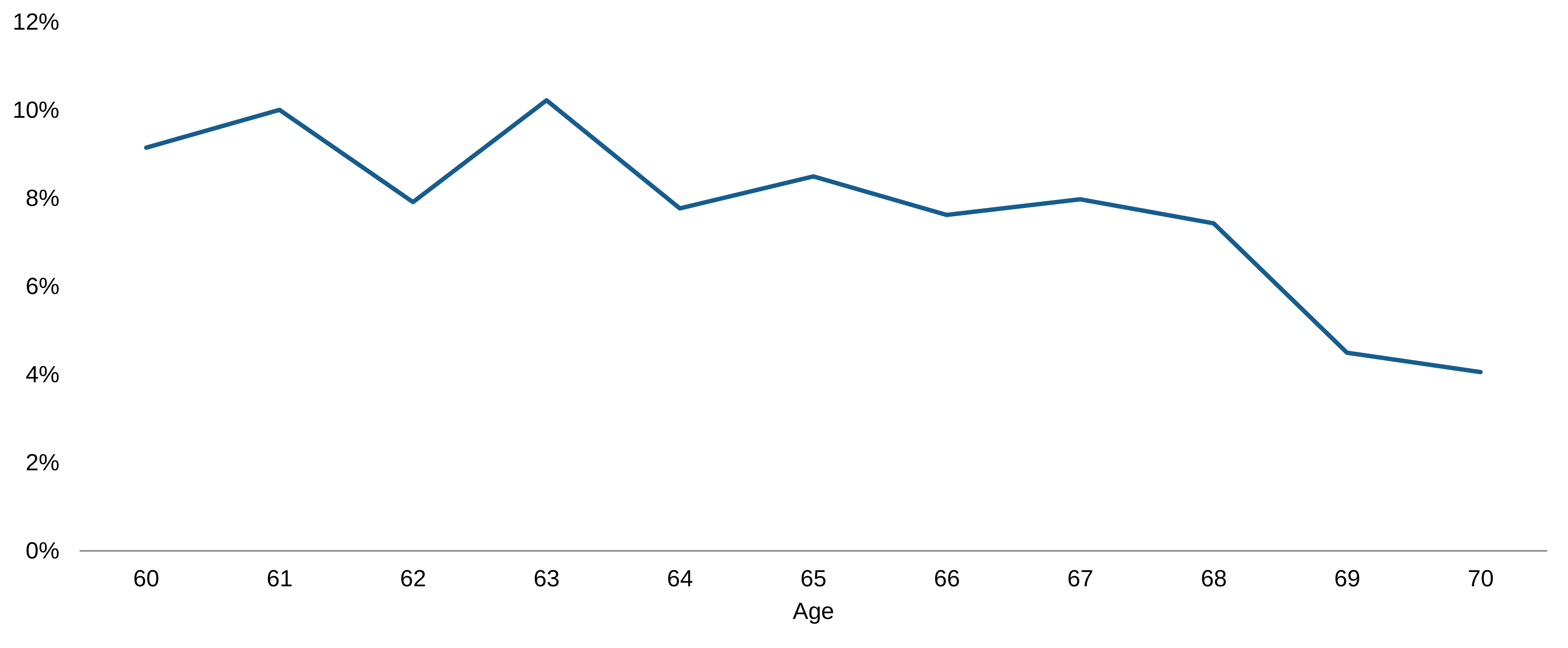
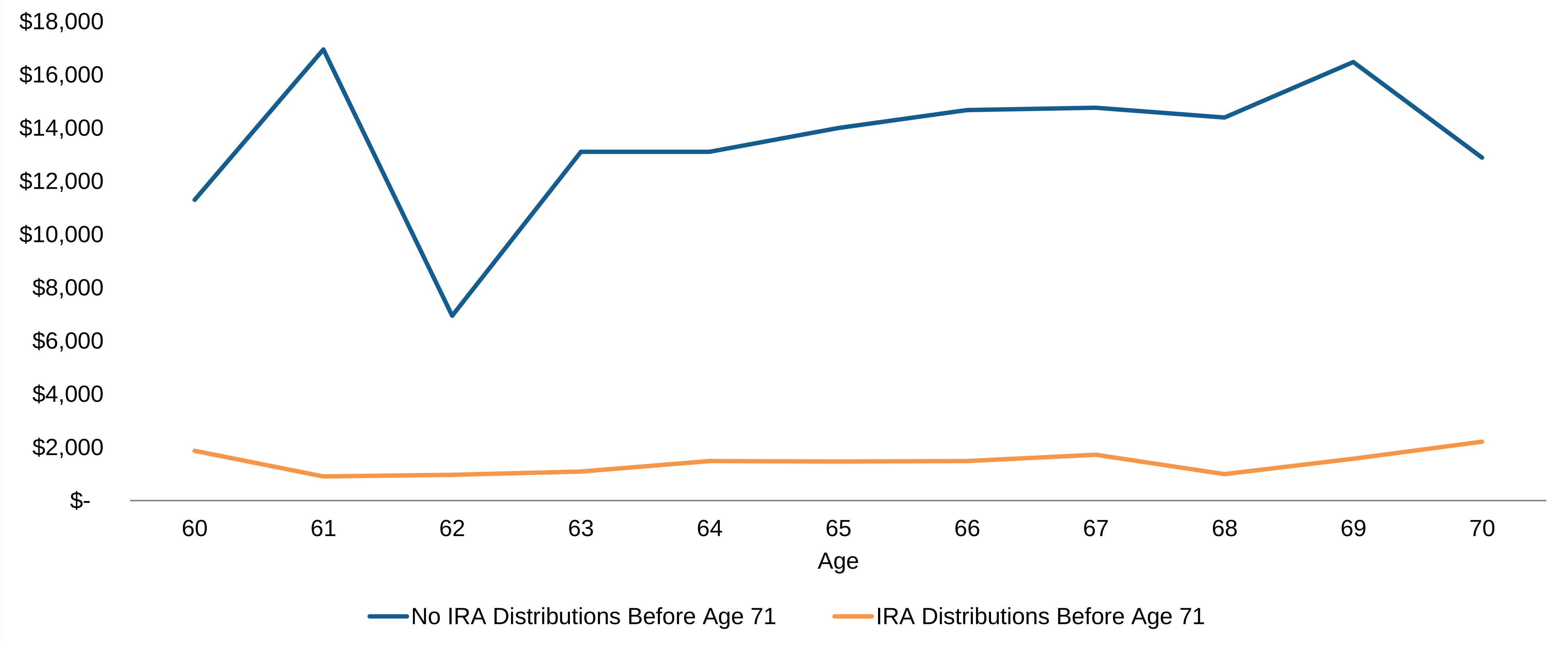
"Early" IRA Withdrawals in the 60's are Much Larger than RMD Percentages Starting at Age 71

IRA Withdrawal Percentages by Age for Households Taking Distributions Prior to Age 71



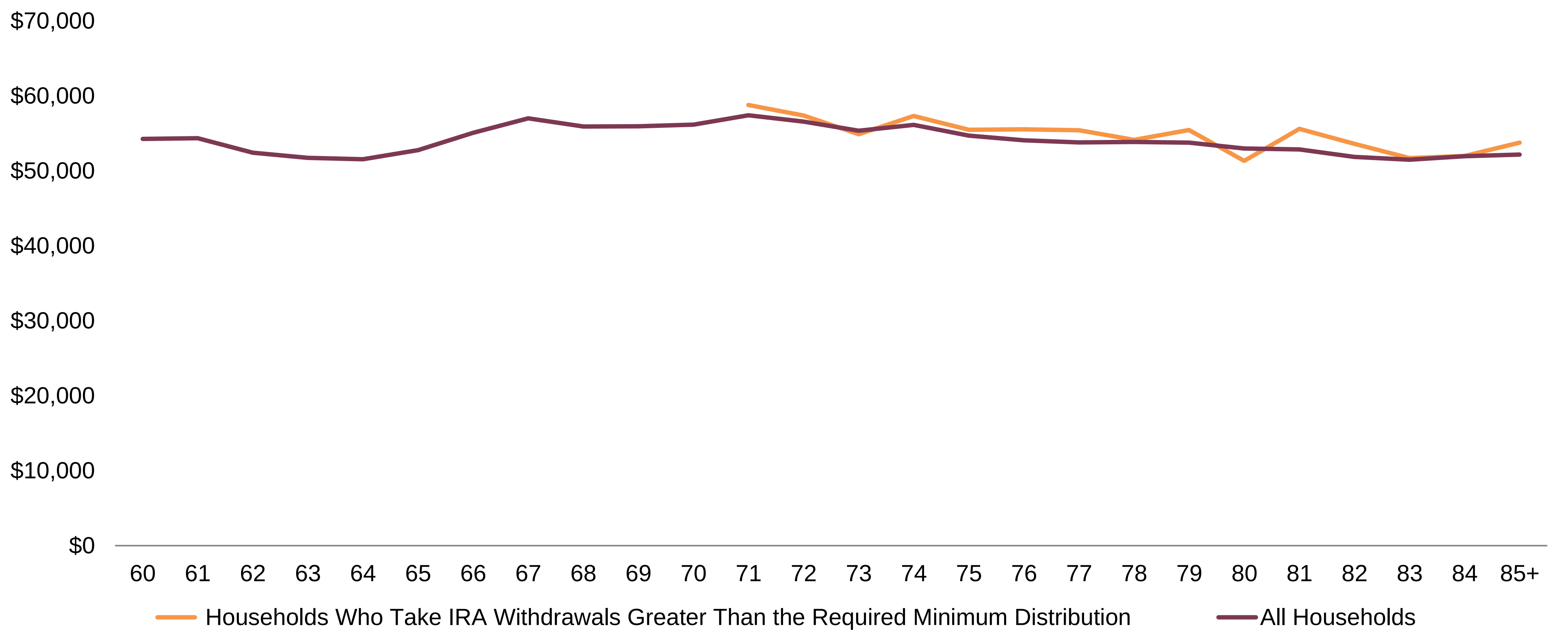
On Average, it Appears that Those Taking “Early” IRA Distributions Take Just Enough to Support Current Spending

Average Differences Between Income and Spending Amounts by Age for Households as a Function of Whether They Are Taking IRA Distributions Prior to Age 71



Average Spending for Those Taking More Than the Minimum Required from IRAs Is Similar to the Entire Sample

Average Spending by Age for Households Who Take IRA Withdrawals Greater Than the Required Minimum Distribution vs. All Households



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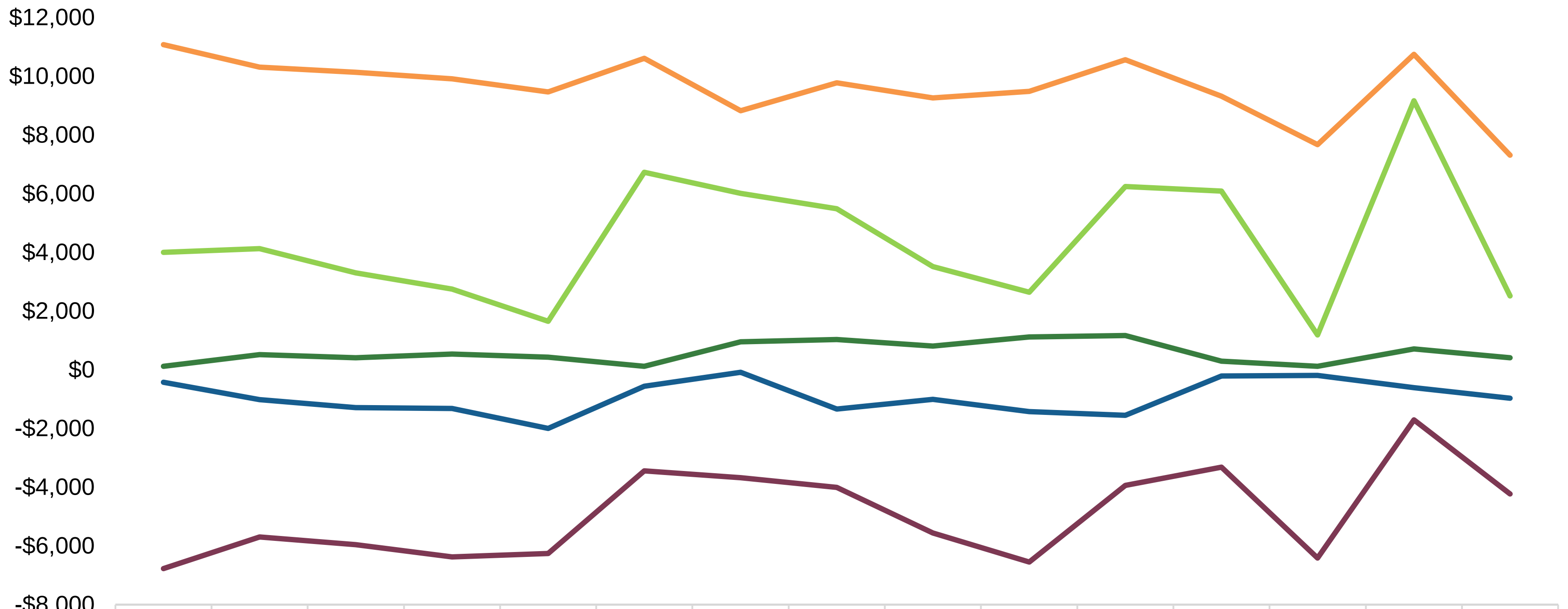
Average Income for Those Taking More Than the Minimum Required from IRAs Is Typically Larger Than the Entire Sample

Differences in Retirement Income Components for Those Taking IRA Withdrawals Greater Than the Required Minimum Distribution vs. Entire Sample



	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85
Annuity and Defined Benefit Pension	$(423)	$(1,019)	$(1,286)	$(1,316)	$(1,997)	$(556)	$(85)	$(1,333)	$(1,004)	$(1,422)	$(1,553)	$(210)	$(190)	$(604)	$(967)
IRA	$11,080	$10,314	$10,138	$9,914	$9,470	$10,617	$8,827	$9,784	$9,269	$9,492	$10,571	$9,321	$7,674	$10,756	$7,313
Transfers From Other Financial Institutions	$(6,771)	$(5,690)	$(5,953)	$(6,377)	$(6,254)	$(3,446)	$(3,676)	$(4,001)	$(5,561)	$(6,546)	$(3,940)	$(3,320)	$(6,417)	$(1,702)	$(4,232)
Social Security	$118	$524	$409	$535	$434	$122	$952	$1,038	$814	$1,121	$1,170	$300	$125	$716	$410
Total	$4,005	$4,129	$3,308	$2,756	$1,653	$6,737	$6,017	$5,488	$3,518	$2,646	$6,248	$6,092	$1,191	$9,167	$2,524

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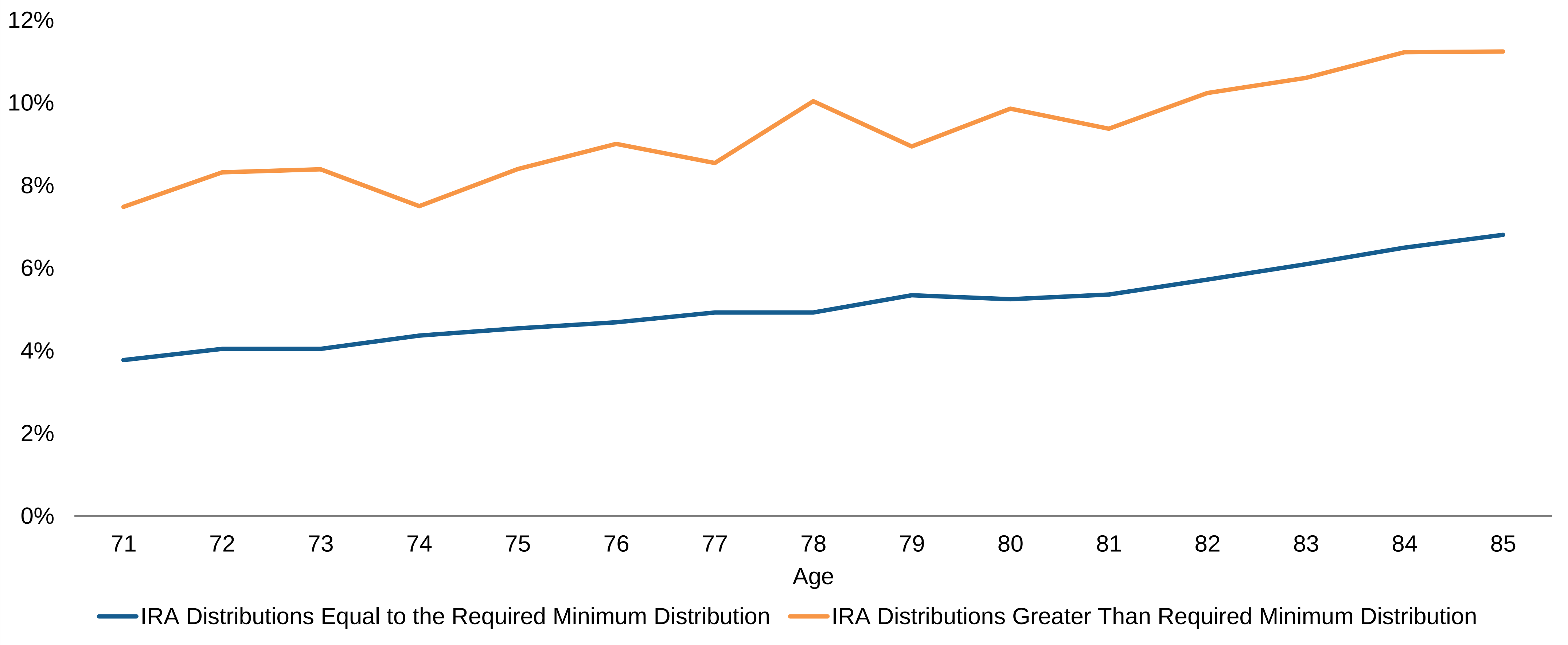
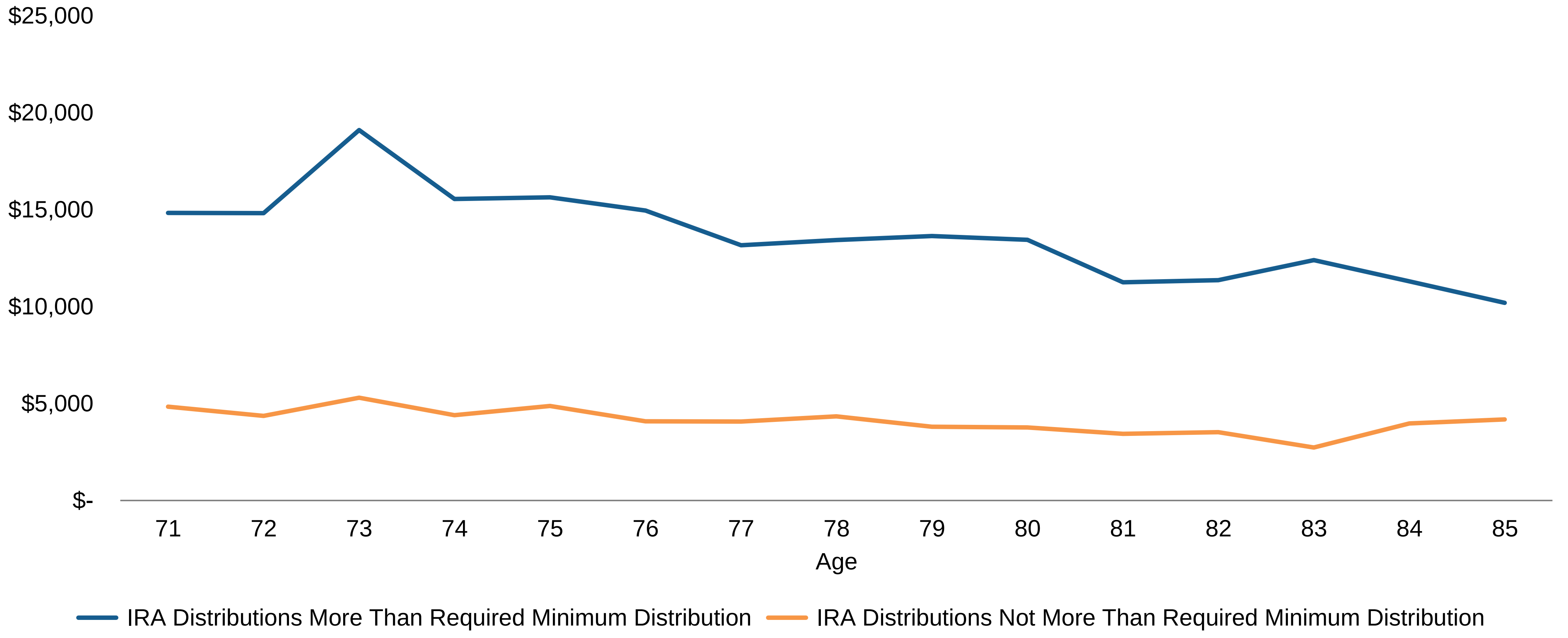
Households Taking an IRA Withdrawal Greater than the RMD Have an Average Withdrawal Rate 4.2 Percentage Points Larger Than the RMD Rate

IRA Withdrawal Percentages as a Function of Whether Households Take IRA Withdrawals Greater Than the Required Minimum Distribution



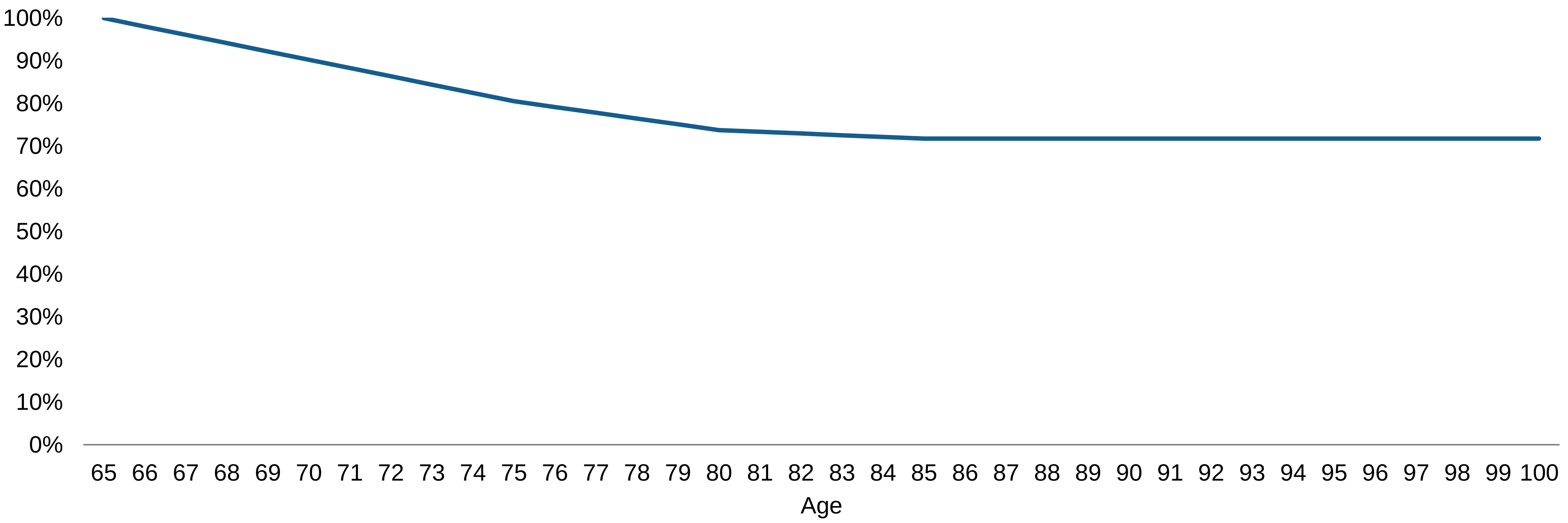
The “Excess” Income for Those with IRA Withdrawals Larger than the RMD Is Much Larger than the Average for the Full Sample

Average Differences Between Income and Spending as a Function of Whether Households Take IRA Withdrawals Greater Than the Required Minimum Distribution



COULD IRA WITHDRAWALS BE LARGER FOR SOME WITHOUT THE RISK OF RUNNING OUT OF MONEY?

Percentage of Pre-Retirement Spending*

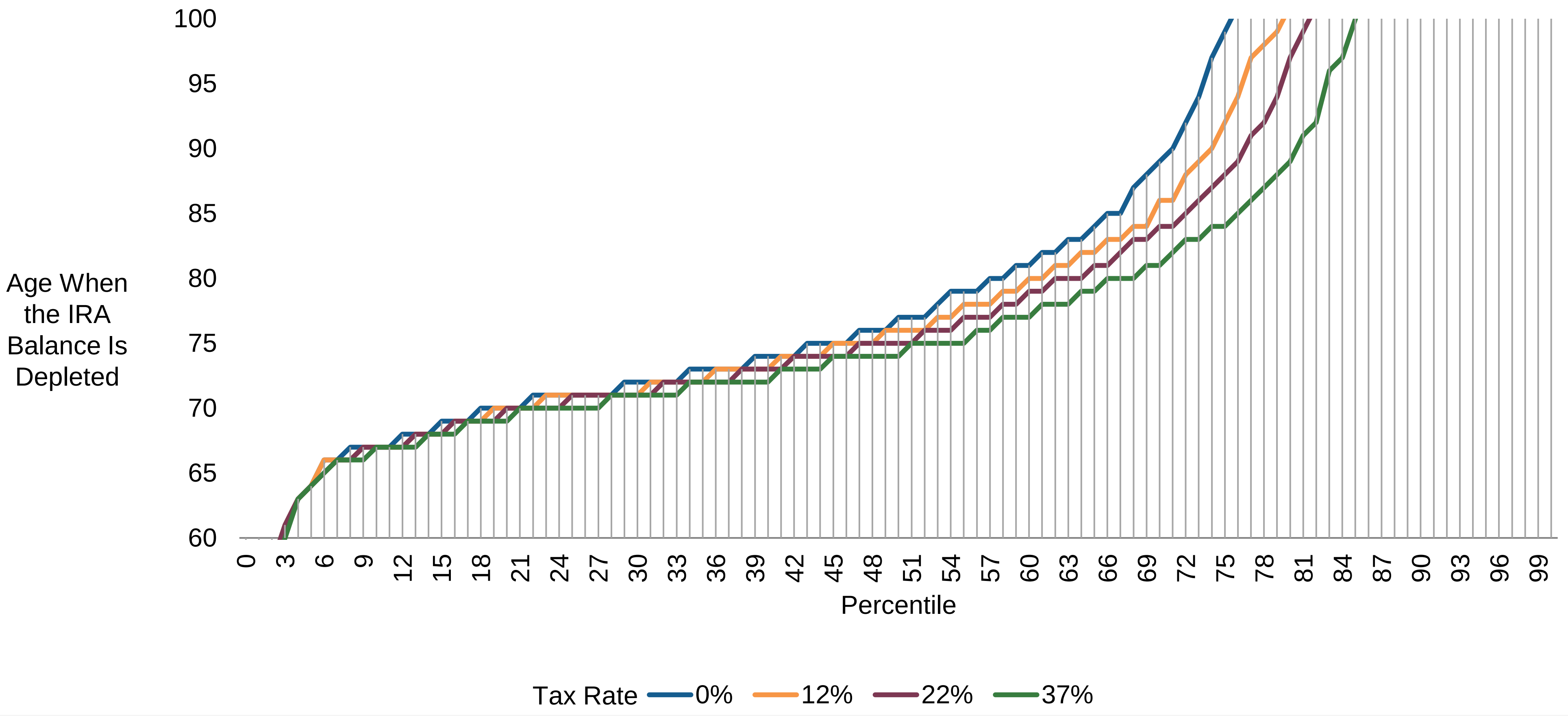


* Using JPM 2018 median spending curve.

Source: Total spending: Select Chase credit and debit card, electronic payment, ATM withdrawal and check transactions from January 1 – December 31, 2018. Health care costs pre-age 65 and check and cash distribution excluding health care costs after age 65: 2017 CE Survey, College Educated; J.P. Morgan analysis. Health care costs age 65+: 2020 J.P. Morgan Guide to Retirement. Assumption for HH size (based on 2017 CE survey) for health care costs 65+: 1.9 at age 65 declining to 1.6 by end of analysis. Information that would have allowed identification of specific customers was removed prior to the analysis. Other includes: tax payments, insurance, gambling, personal care and uncategorized items.

Depending on the Tax Rate, Between 15 and 24 Percent of the Sample Could "Safely" Increase Spending to Age-Specific Averages

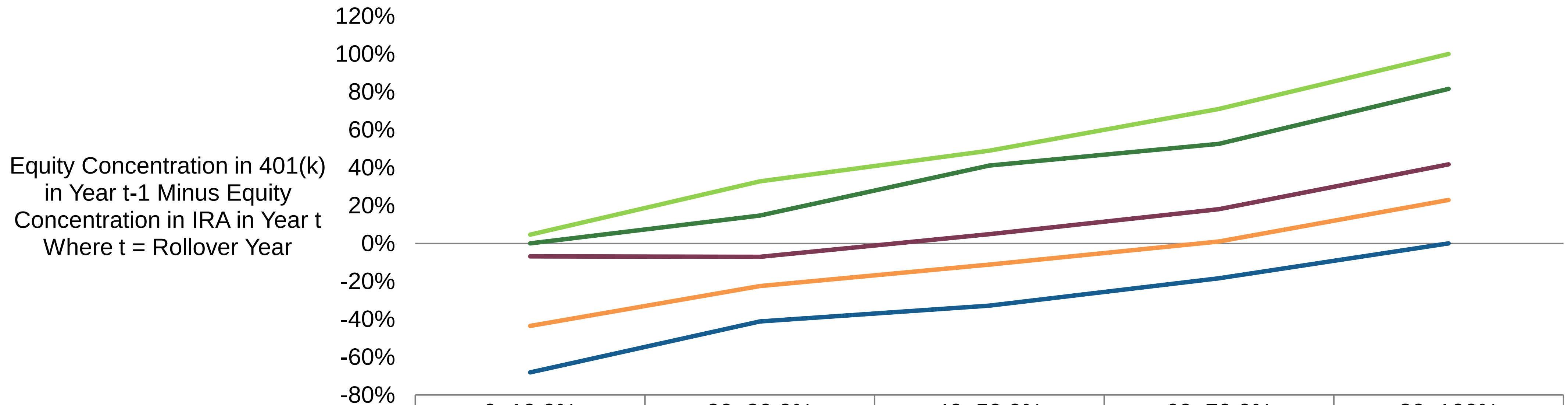
Distribution of the Age When the IRA Balance Is Depleted as a Function of the Marginal Tax Rate



ASSET ALLOCATION CHANGE AT ROLLOVER

“De-risking” at Rollover Depends on Equity Concentration Before the Rollover

Asset Allocation Change at Rollover Into IRA

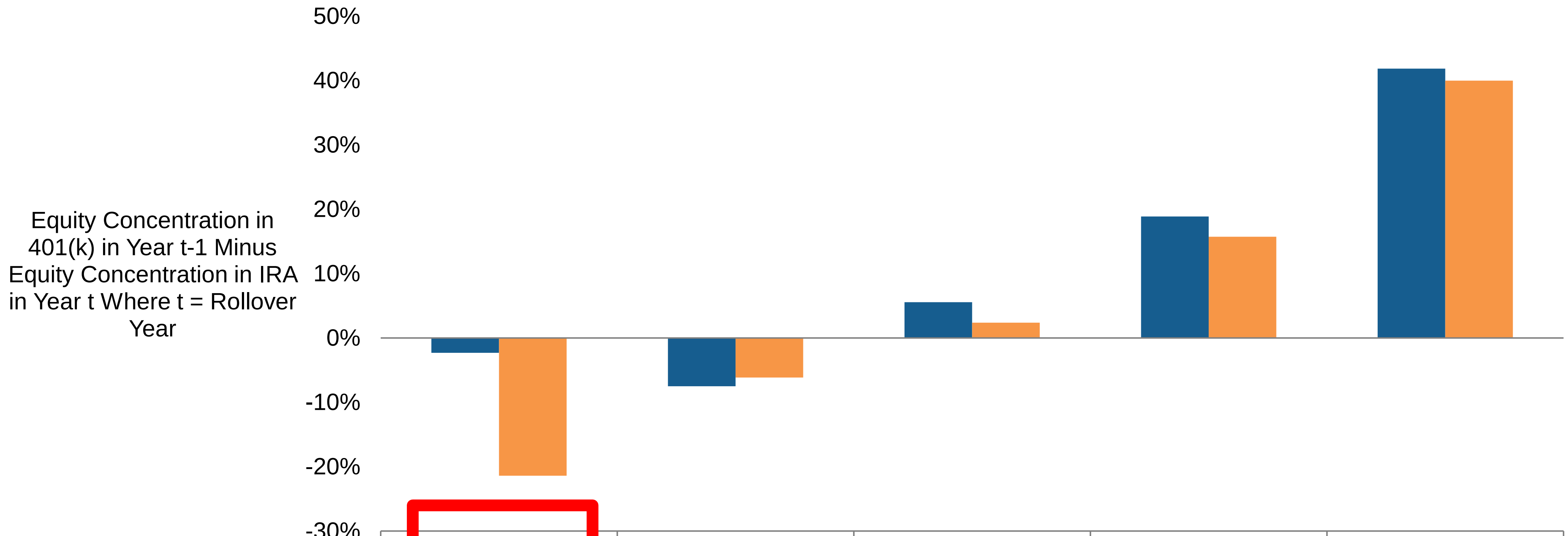


	0–19.9%	20–39.9%	40–59.9%	60–79.9%	80–100%
10th Percentile	-68%	-41%	-33%	-18%	0%
30th Percentile	-43%	-22%	-11%	1%	23%
50th Percentile	-7%	-7%	5%	18%	42%
70th Percentile	0%	15%	41%	53%	82%
90th Percentile	5%	33%	49%	71%	100%

Equity Concentration in 401(k) Plans

Households with Low Equity Concentrations in a 401(k) Plan Have More Aggressive Portfolio After a Rollover If They Have Some Pension or Annuity

Asset Allocation Change at Rollover as a Function of Having Annuities and/or Pensions

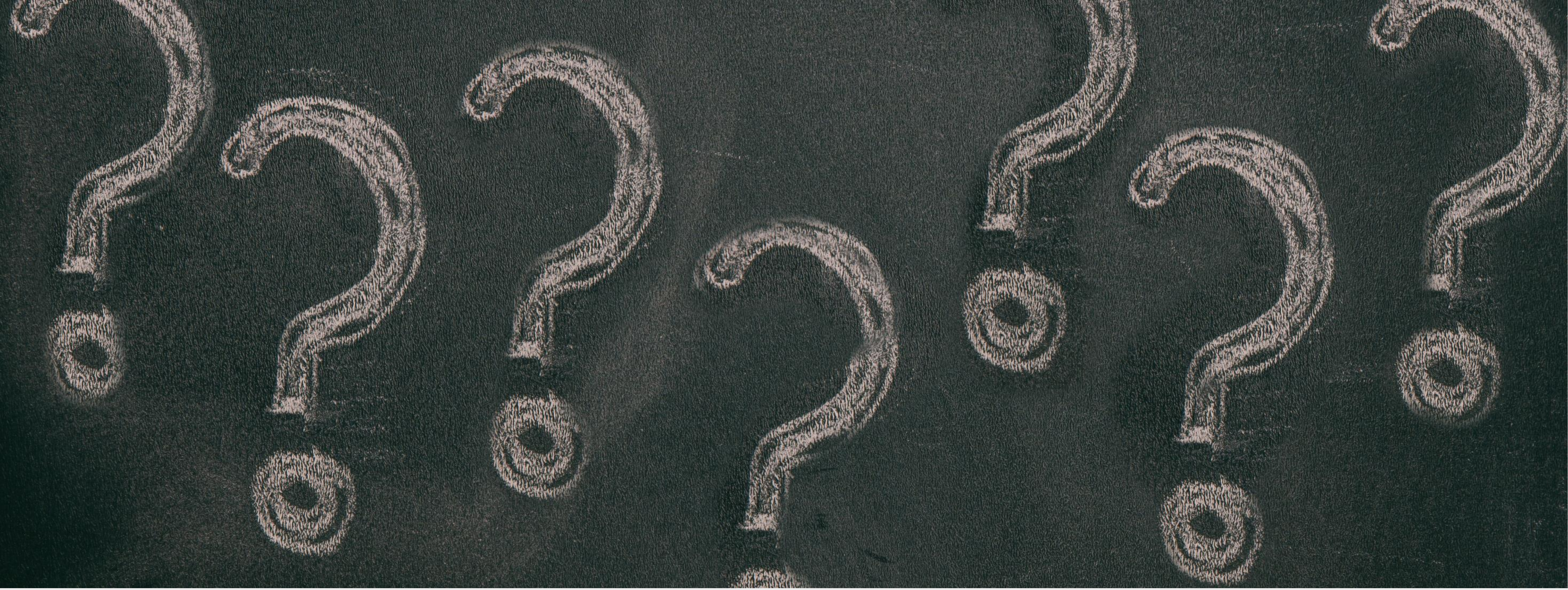


	0–19.9%	20–39.9%	40–59.9%	60–79.9%	80–100%
No Pension or Annuity	-2%	-8%	6%	19%	42%
Some Pension or Annuity	-21%	-6%	2%	16%	40%

Equity Concentration in 401(k) Plan

Key Take-Aways

- On average, those households taking an IRA withdrawal prior to reaching the age for required minimum distributions appear to need the additional income to support their current consumption levels.
  - However, that may not be the case for households taking more than the required minimum distribution after age 70-½.
- While a significant percentage of households in our sample with "spending gaps" could increase post-retirement expenditures, it is not as large as conventional wisdom might lead one to believe.
- We find a very significant overall decrease in asset allocation equity concentration after rollover from a 401(k) to an IRA at retirement age.
- We also found that when it comes to the most conservative 401(k) investors, those without annuities and/or pensions had a slightly larger equity concentration in their IRA portfolios after rollover than they had in their 401(k) plans
  - However, those with some annuities and/or pensions had a significantly larger increase in equity concentration.



POLLING QUESTION

PLEASE SHARE YOUR THOUGHTS

Q&A

EBRI

Upcoming Events

Tuesday, November 30 — Target Date Funds in the Spotlight: How Well Are 401(k) Participants Using Them? Webinar

December 6, 7, and 9 — Winter Policy Forum Webinars

Please visit ebri.org for more information.
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