Wall Street Journal

April 5, 2013

The Case for Spending It

After All, There's More to Life Than Amassing Assets

- **By KAREN BLUMENTHAL**

Many investors worry about running out of money in retirement. Maybe their focus should be on making the most of their later years instead.

With the Dow Jones Industrial Average and the Standard & Poor's 500-stock index hitting new highs, many couples might now be feeling wealthier—and be wrestling even more with their choices. Should they seize the day or keep scrimping?

Managing the balance between living in the moment and saving for the future is always a challenge, but it becomes even more so as we move toward retirement, recognizing that the time left for both is ticking away.

It would be a simpler equation if we all knew how long we were going to live. The financial industry urges us to plan as though we'll all live into our 90s—though most of us, alas, won't. A healthy 65-year-old person has a life expectancy of almost 20 years. But, really, that is a 50-50 chance: Roughly half the folks alive at 65 will die before reaching 85.

If we guess wrong, the consequences could be severe. Yet, on the flip side, says Michael Finke, professor of personal financial planning at Texas Tech University in Lubbock, most savers will die leaving behind vacations that weren't taken or family gatherings that were missed.

Spending More

In research published last year, he and others found that savers willing to take a little extra risk could spend 50% more of their retirement savings each year than the often-recommended 4%-plus-inflation annual withdrawal formula.

In reality, many higher-income couples might be too conservative. Mathew Greenwald & Associates, a market research firm, tracked people 55 to 79 years old over a decade and found that households with at least $150,000 in investible assets worked especially hard to maintain their wealth in retirement, rather than draw it down.

They were able to do so in the first decade or so of retirement, apparently by adjusting spending.

Once they reach a certain level of wealth, "they hold on as long as they can," says Mathew Greenwald, the firm's president.

A 2012 study from the Employee Benefit Research Institute found that while lower-income households struggled to make ends meet in retirement, higher-income households spent far less than their income for many years.

That is a plus for heirs, but could mean that serious savers might be missing out on some of the fun.

What are your options for enjoying life without running out of money? Well, for starters, having healthy retirement and savings accounts can cure a lot of future ills. So save smart: Stay out of debt so you can max out your retirement savings, which should give you more breathing room for enjoying life later on.

Similarly, taking Social Security later rather than earlier and continuing to earn some income can also bulk up your income through your retirement.

A financial planner can help you figure out how much is enough—or more than enough. One rule of thumb is to aim for total savings of eight to 12 times your annual income, with the higher number applying to higher earners, or 25 times what you will need to withdraw in retirement after Social Security and any pension income.

Insuring Your Old Age

Another strategy: Address some of your biggest worries. Long-term-care insurance, while costly, can alleviate concerns that time in assisted living or a nursing home will clean out your savings. Buying a deferred income annuity, sometimes called "longevity insurance," can provide guaranteed income down the road.

A 60-year-old who buys the insurance now with a single premium could receive more than 10% of the premium amount every year for life beginning at age 70.

The payout should be higher than if you invested the money yourself because people who live a long time benefit from being in a pool with those who don't.

Inoculating Savings

Academics say you could inoculate your savings with a lump-sum annuity purchase at 65 that will pay out income beginning at 85, allowing you to spend more in your active retirement years, while knowing that funds would be there later.

But consumers have snubbed that kind of insurance for annuities that pay out sooner, typically within a decade, says Matthew Grove, head of New York Life Insurance's annuity business. The market for such future-income annuities has grown to $1 billion a year from $50 million over the past two years as baby boomers move closer to retirement, he says.

Last, flexibility matters. Because most people are more active early in retirement and because expenses tend to decline with age, savers shouldn't be afraid to spend more in the earlier years—as long as they are willing to adjust their spending later. You also will have more flexibility if you are willing to tap into your house for cash later.

You might not have an ironclad guarantee that you won't run out of money. But at least you will have lived fully while you are alive.