Spenders vs. Savers: How to Determine Your Retirement Spending Personality

Knowing your spending and saving preferences in retirement can help you build a plan tailored to your needs.

KEY INSIGHTS

- Retirees differ in how they approach spending in retirement.
- The spending behavior of seven in 10 retirees runs counter to conventional wisdom.
- T. Rowe Price research suggests that the majority of those in retirement classify as savers rather than spenders.
- It is important for retirees to develop income plans that properly reflect their preferences.

When it comes to spending, not all retirees behave the same way. In fact, recent research by T. Rowe Price shows that most retirees are not in fact "spenders" who look to draw down their retirement balances over time, as conventional wisdom suggests. Instead, many people act more like "savers," who prefer to adjust their spending to maintain, or even grow, their balance throughout their retirement.

Understanding which personality type—spender or saver—you connect with more can help you lay out a retirement spending plan that matches your needs and preferences. (To find out your type, take the short quiz: What's Your Retirement Spending Personality? at the end of this article.)

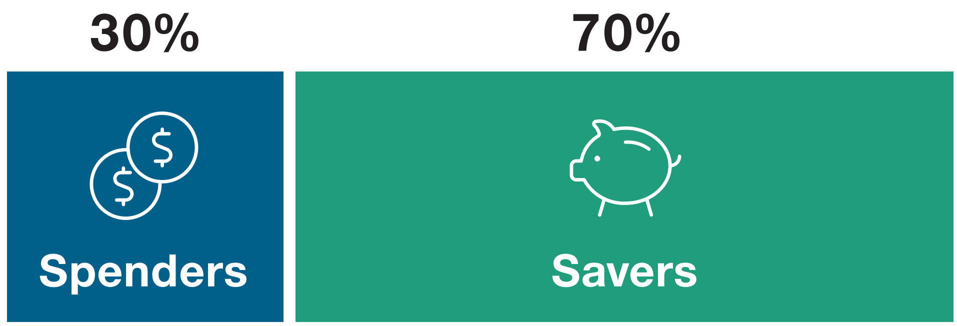
Spenders and savers in action

Conventional wisdom holds that retirees have a specific spending budget and that they will gradually draw down their savings balance to maintain that spending target throughout retirement. However, T. Rowe Price research[1] finds more nuance:

- Only 30% of retirees, known as spenders, take this approach, maintaining their spending and drawing down their balance.
- The majority—70%—are savers who prefer to adjust their spending to maintain their balance in retirement.

The difference isn't merely theoretical. Research shows that savers actually exhibit behaviors that depart from conventional thinking:

[1] T. Rowe Price Retirement Savings and Spending Study (2021).



- For instance, just 8% of retirees would use savings to maintain their current level of spending during a market downturn—behavior that represents the spender mentality—while 65% say they would simply spend less, and the other 27% say they would just "dip into savings" without maintaining their current level of spending.[2]
- And 75% of retirees choose not to make withdrawals from their retirement accounts until required minimum distributions (RMDs) compel them to do so.[3]

All of these actions translate into savings that last longer—as our research has shown that a third of retirees actually have higher balances partway through their retirement than when they started retirement, and at death, they have just as much money as they did when their retirement began.[4]

A slower drawdown in retirement saving means a longer time horizon

Spending behavior is an important factor in the success of any retirement plan. Incorporating your actual spending preferences into your strategy can help you better estimate how long your assets can support you and can help you avoid making unnecessary compromises in your vision for retirement.

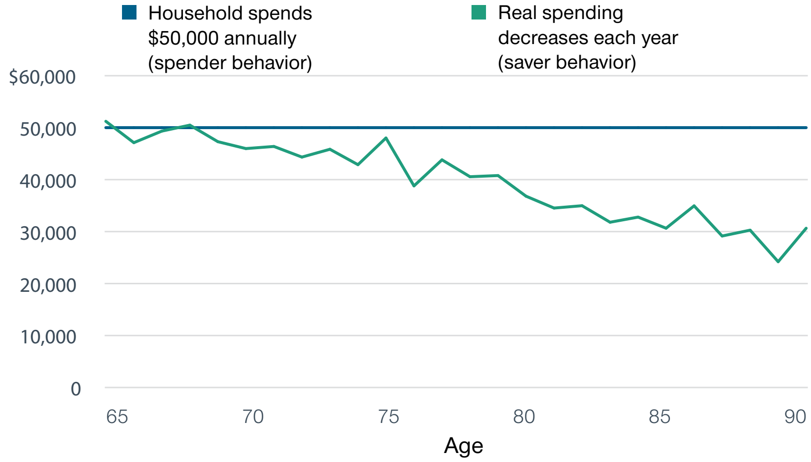
For instance, conventional wisdom—the spender approach—states that retirees' spending will rise over time to match rising inflation. In this approach, a retiree who plans to spend $50,000 in the first year of retirement should expect to spend $51,500 in their second year, assuming an average inflation rate of 3% per year. However, T. Rowe Price research shows that overall retiree spending increases about two percentage points slower than inflation (about 1% per year in this example), which translates into an inflation-adjusted decline in spending over time. (See Real Spending in Retirement.)

This pattern more closely represents a saver's behavior, which leaves more of their balance intact over time. When savers adjust their spending, they largely do so by choice rather than by necessity. Research shows that high-net-worth households tend to cut their real spending at a faster rate than retirees overall, while the real spending of low-net-worth households remains largely flat.[5]

[2] Lucas, Lori, *Why Do People Spend the Way They Do in Retirement? Findings From EBRI's Spending in Retirement Survey*, Employee Benefits Research Institute (EBRI), Issue Brief, January 14, 2021, No. 522, Figure 19, pg. 18.
[3] Poterba, James, Steven Venti, and David Wise, *The Drawdown of Personal Retirement Assets: Husbanding or Squandering?*, National Bureau of Economic Research (NBER), January 2011, Revised January 2013.
[4] Banerjee, Sudipto, *Asset Decumulation or Asset Preservation? What Guides Retirement Spending?*, Employee Benefits Research Institute (EBRI), Issue Brief, April 3, 2018, No. 447, Figure 19, pgs. 1 and 4.
[5] Banerjee, Sudipto, "Decoding Retiree Spending, T. Rowe Price Insights on Retirement," T. Rowe Price Group, Inc.

Real Spending in Retirement

Rather than keeping up with inflation, real spending by many retiree households actually decreases over time on a relative basis.



Source: Banerjee, Sudipto, "Decoding Retiree Spending, T. Rowe Price Insights on Retirement," *T. Rowe Price Group, Inc., March 2021 analysis of Health and Retirement Study, public use dataset*. Produced and distributed by the University of Michigan with funding from the National Institute on Aging (grant number NIA U01AG009740). Ann Arbor, MI.

Retirees who behave more like savers but have a spender's plan in place may want to revisit some of their assumptions:

- First, consider the question of retirement timing. If a saver is likely to reduce their spending in retirement to maintain their savings balance, their assets will likely last longer. As a result, they may be able to retire earlier than planned—potentially welcome news for many people.
- Next, consider your target allocation. If a saver does decide to retire earlier, their time horizon in retirement will be longer. And even if they don't retire earlier, drawing down their savings slower than a spender would mean that they need less of their money right away. As a result, they may be able to allocate more of their savings to equities. This approach could help ensure that their portfolio generates enough growth to last for a longer retirement than conventional wisdom expects for an early retiree, or it could provide greater growth potential for savers who are drawing less from their portfolios.

Understanding your personality type can help you develop a plan that's right for you

One type of retirement spending personality is not better than the other. These categories merely represent different approaches to spending in retirement, each with its own planning needs. Moreover, retirees typically fall somewhere along the spectrum between the two types, rather than being fully one or the other.

The retirement industry has long focused primarily on spenders when it comes to developing plans. As a result, many retirement spending plans are designed to help retirees maintain their spending regardless of external effects, including market declines. But if you are more of a saver than a spender, that approach may not represent your true values. After all, savers demonstrate the more unexpected behavior in retirement planning. As a result, it's important for all retirees to be clear on their preferences and motivations before they commit to a retirement strategy. By doing so, you can base your plan on the right assumptions, including retirement date and asset allocation, to achieve your long-term financial goals.

What's Your Retirement Spending Personality?

#1 Do you think your household net worth is:

1. A lot lower than average

2. Lower than average

3. About average

4. Higher than average

5. A lot higher than average

#2 How do you plan to manage your balance in retirement?

1. I will withdraw whatever funds I need to maintain my lifestyle

2. I will take systematic withdrawals of either a set amount or a percentage of my savings each month

3. I will plan to spend down my entire balance over my retirement

4. I will try to maintain my account balance

5. I will try to increase my account balance

#3 What is your main goal for your savings in retirement?

1. I will use my savings to generate income

2. I will use my savings to support my spending

3. I will preserve some savings to distribute to heirs or charity in the future

4. I will set aside some savings for future events

5. I will manage my withdrawals to maintain a relatively consistent retirement savings balance

#4 Which of the following best describes you?

1. Very enthusiastic spender

2. Enthusiastic spender

3. Average spender

4. Reluctant spender

5. Very reluctant spender

#5 How strongly do you agree or disagree with the statement: "Saving makes me feel gratified"?

1. Strongly disagree

2. Somewhat disagree

3. Neither agree nor disagree

4. Somewhat agree

5. Strongly agree

1 Add up all your responses

2 Divide your total by 5

3 This is your Spender/Saver score!

Plot your score on the spectrum to see whether you are more of a Spender or Saver.

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