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# Rich Retirees Are Hoarding Cash Out of Fear

## While younger generations get poorer, older Americans can't seem to spend it all.

**by Ben Steverman**

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There's a time in everyone's life to save. There's also a time when you're supposed to spend. That time is commonly known as retirement.

Millions of Americans aren't doing that, however, which has put the U.S. in a perverse situation. Younger generations aren't saving enough as their income slips further behind previous generations. Older Americans meanwhile sit atop unprecedented piles of assets built through stock market and real estate booms.

Yet these retirees, or at least the affluent ones, aren't spending it. It turns out they're afraid of the unknown.

A new study finds many U.S. retirees keep saving even after they've retired. The average American over the age of 60 cuts spending 2.5 percent per year, or about 20 percent over a 10-year period, according to an analysis of University of Michigan survey data by financial planning software company United Income. As a result, millions of Americans are living too frugally, said Matt Fellowes, United Income's CEO 1 . On average and adjusting for inflation, retirees are entering their 80s richer than they were in their 60s and 70s.

Unsurprisingly, given the data, Americans are dying with more money than they used to, adding to the increasing inequality that flows from inherited wealth. United Income analyzed the estates of people who died between 2000 to 2002, and compared them with those who died between 2010 to 2012. Although the later group had just lived through a financial crisis and worldwide recession, their estate values were 130 percent higher.

"We have to get people comfortable with enjoying their retirement and spending their money," Fellowes said.

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Other studies have found affluent older Americans hoarding money. Last year, a study in the Journal of Financial Planning found that the wealthiest fifth of U.S. retirees were spending 53 percent less than they could have. Meanwhile, the poorest 40 percent generally spend more than they safely should; the median retiree spent about 8 percent less than the safe amount.

Researchers looked at all the logical reasons why affluent retirees might be so tight-fisted, including the desire to leave an inheritance or worries about future medical needs. The big motivator turned out to be some version of fear they would run out of cash too early.

“We found that even in a worst-case scenario, they could have spent more,” said Texas Tech University Professor Christopher Browning, one of the study’s authors. “There have to be other explanations,” he said–reasons that aren’t rational.

One of those irrational reasons may be simple habit. Something strange happens when people retire, Browning says. All of a sudden, they’re not getting a regular paycheck, and that makes them scared to spend. Goals set before retirement are abandoned, along with pre-determined spending plans, because retirees are terrified see the balances on their retirement accounts drop even a tiny bit.

In all, American households and nonprofits were worth $93 trillion at the end of last year, according the U.S. Federal Reserve. That’s almost $300,000 for every man, woman, and child in the country. Of that, Americans held $25.3 trillion as retirement assets, according to the Investment Company Institute. That includes $8.4 trillion in defined-benefit pensions and $14.9 trillion in individual retirement accounts and 401(k)-style plans.

If the bulk of that money never gets spent, that’s a big problem. Set aside that the U.S. economy could use the boost. Studies show that active retirees live longer, happier lives. There are cheap ways to get out of the house, of course, but a little spending money gives retirees far more options for exercising, socializing, and traveling.

The situation for wealthier older Americans couldn’t be more different than that facing younger generations. A study released by the National Bureau of Economic Research last month found the typical American man who entered the workforce in 1983 earned up to 19 percent less over his lifetime compared with one who started working in 1967. (Women’s incomes rose over that period, but that’s because earlier generations of women earned very little money.) Based on more recent data for younger people who are still in the workforce, the authors wrote, “the stagnation of median lifetime income seems likely to continue.”

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What can get rich elderly Americans spending more? One way is to reassure them they’re not going to run out of cash. Tools such as annuities and bond-ladders can turn a retirement account into a regular stream of income, mimicking a paycheck. Insurance products could also protect retirees against huge, late-in-life expenses from medical care—a dominant fear. Browning likes longevity insurance, an annuity that kicks in only if you live to 80 or 85. Other options are reverse mortgages or long-term care insurance.

Maybe the problem requires more creative solutions. Financial planners need to help retirees realize they have a “cognitive bias” that makes them too gloomy about the future, said United Income’s Fellowes. Survey data often show older Americans are less optimistic about financial matters then younger people. Fellowes analyzed the data further and found this optimism gap has been widening over the last four decades.

Even as retirees live longer, healthier lives, they’ve become more pessimistic about the economy, the stock market, and their own financial situation.

After a lifetime of saving, it requires some psychological gymnastics to start spending your nest egg. Browning’s suggestion is that financial planners urge their thriftiest clients to make big purchases–like a second home or a fancy car–before they retire, out of their pot of savings. The idea, he said, is “training people to spend.”