Unlock Retirement Spending by Motivating Better Withdrawal Decisions

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Introduction

From 401(k)s to superannuations to workplace pensions, defined-contribution accounts are increasingly integral to retirees' income. Yet, they pose a particular challenge for retirees, who must determine how much money to withdraw each year to use as income. People often struggle with this unfamiliar choice. Research finds people tend to underspend from their defined-contribution accounts, suggesting retirees may need help with spending down their retirement savings.

In this research, we examined how retirees decide how much to spend from their retirement accounts each year. We found retirees tend to pick (and stick with) simple, hands-off strategies, like using mandated withdrawal rates or their current expenses. These approaches are helpful starting points but, but if followed without tailoring, can lead to suboptimal lifetime spending.

Possible explanations for relying on such approaches—like a lack of capacity for handling finances or fear of running out of money—did not fully explain their use, so we propose retirees may lack motivation to use more complex approaches to determining income, even if it benefits them. In turn, retirees may benefit from reengaging in goal-setting while in retirement to feel motivated to approach this spending in a more complex but personalized manner.

Key Takeaways

- Retirees often rely on simple, hands-off spending strategies, such as using mandated withdrawal rules (like required minimum distributions), basing withdrawals on current expenses, or drawing only dividends and interest. These approaches require little engagement or complex decision-making and may result in suboptimal spending.
- The research finds that common explanations for underspending (lack of savings, fear of running out of money, and low financial literacy) do not fully explain the preference for simple strategies.
- Retirees appear unmotivated to engage in more complex withdrawal decisions because simple strategies already maintain their lifestyle without introducing perceived risk. Goal-setting may be the missing driver, where retirees may need new or renewed goals in retirement to motivate more-engaged spending decisions.

Retirees' Spending of Assets in Qualified Accounts

The current and coming generations of retirees are now more reliant on defined-contribution plans than on workplace pensions. This has led to concern about workers' readiness for retirement,[1] but ironically, the question for many retirees is not whether they have enough to retire but rather whether they have proper plans for spending what they do have.[2]

Financial advisors often note how difficult it can be for retirees to shift from saving mode to spending mode.[3] Meanwhile, economists and other researchers have documented how retirees often underspend their resources in retirement. Retirees do tend to spend annuitized forms of income more readily than the wealth they've accumulated in retirement accounts,[4] yet even so, retirees with wealth in the top three quintiles underspend both annuitized and nonannuitized income.[5] Researchers have put forth potential explanations for this behavior, such as anticipated longevity risk, future medical expenditures, and bequest motives, but the gap between potential and actual spending persists even when accounting for these concerns.[6]

This continued gap between possibility and reality is perhaps not too puzzling when we consider the difficulty retirees face when it comes to spending down their retirement savings. Retirees must contend with numerous unknown factors, not just how long they will live but also how their investments will perform, grapple with inflation, and weather potential costly medical expenses down the road.

Retirees are not without guidance, though. Experts have spilled much ink trying to help retirees make the most of their retirement savings. For example, some have created models that project out returns based on asset allocation, inflation, success rates, and more to help retirees determine a safe withdrawal rate.[7] Others try to help retirees adopt an income style that suits their personal comfort with factors like probability of success and commitment.[8]

Nonetheless, little is understood about the actual techniques that retirees use to determine how much income they can take from their defined-contribution accounts. Do retirees heed the suggestions of experts when spending their retirement savings, or are they relying on heuristics to guide their decisions? We endeavored to better understand what withdrawal strategies are commonly used by

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1 Ghilarducci, T., & James, T. 2018. "Americans haven't saved enough for retirement. What are we going to do about it?" *Harvard Business Review.* March 28, 2018. https://hbr.org/2018/03/americans-havent-saved-enough-for-retirement-what-are-we-going-to-do-about-it

2 Statman, M. 2017. "Are your clients not spending enough in retirement?" *Journal of Financial Planning,* Vol. 30, No. 11, P. 34.

3 Van Deusen, A. 2023. "Helping Hesitant Clients Boost Their Retirement Spending." *Nerd's Eye View.* Nov. 8, 2023. https://www.kitces.com/blog/retirement-spending-increase-financial-advisor-client-guardrails-guaranteed-income/

4 Blanchett, D., & Finke, M.S. 2025. "Retirees spend lifetime income, not savings." *Financial Planning Review,* Vol. 8, No. 3, P. e70010. https://doi.org/10.1002/cfp2.70010

5 Browning, C., Guo, T., Cheng, Y., & Finke, M.S. 2016. "Spending in retirement: Determining the consumption gap." *Journal of Financial Planning,* Vol. 29, No. 2, P. 42.

6 Ibid.

7 Benz, C., & Guo, T. 2024. "What's a safe retirement spending rate for 2025?" Morningstar. Dec. 11, 2024. https://www.morningstar.com/retirement/whats-safe-retirement-spending-rate-2025

8 Murgia, A., & Pfau, W. 2022. "The RISA framework: A systematized approach to personalizing retirement income strategies for clients." *Nerd's Eye View.* April 20, 2022. https://www.kitces.com/blog/risa-framework-retirement-income-planning-client-preferences-total-return-strategy-risk-tolerance/

retirees, how committed they were to these strategies, and what causes them to shift strategies. By better understanding retirees' approaches to retirement spending, we can identify avenues that may help retirees better use and enjoy their wealth in retirement.

Sample

We surveyed a global sample of 937 retired or semiretired people. Of those, 670 reported having a defined-contribution retirement plan and were retained as our core sample for this study. This included data from 262 Americans and 208 Britons gathered using the Prolific platform and 200 Australians gathered using the CloudResearch Platform. To be eligible for the study, retirees had to be at least 60 years of age and have at least the median level of investable assets in their country.[9] Participants were 69 years on average (range = 60-88), tended to be white (95%) and highly educated (58% reporting bachelor's or higher degree), with about half reporting being male (48%).

Capturing Retirement Spending Strategies Retirees Actually Use

In our study, we asked retirees what spending strategies they used to determine how much to withdraw annually from their retirement savings account.[10] We presented retirees with a list of retirement spending strategies sourced from existing literature. We included strategies commonly mentioned in industry literature, such as the 4% rule (*Withdraw a fixed percentage of my portfolio)*, guardrails spending (*Decide how much to withdraw based on economic conditions*), and spending only interest or dividends generated by the portfolio. However, there are as many strategies as there are retirees, making no list of them comprehensive, so we also included the option to write in any other strategy they might use.

Exhibit 1 Retirement Spending Strategies

Calculate how much to withdraw based on my expected expenses
Decided how much to withdraw based on economic conditions, like how the market is doing
Withdraw a set amount of cash, adjusting for inflation
Withdraw a set amount of cash, not adjusting for inflation
Withdraw a fixed percentage of my portfolio
Withdraw a fixed percentage of my portfolio, adjusting for inflation
Withdraw the required minimum distribution
Consult with an advisor
Withdraw only the dividends and interest from my portfolio, leaving the principal untouched

9 For the US, retirees had to report a minimum of USD 100,000. For the UK, retirees had to report a minimum of GPB 50,000. For Australia, retirees had to report a minimum of AUD 150,000.

10 In our study, given that we had a global sample, the following retirement income sources qualified as a retirement savings account: 401(k), 403(b), IRA, superannuation, defined-contribution pension (for example, workplace pension you contribute to, personal pension, SIPP).

Some approaches on the list are simple and require little vigilance on the part of the retiree—namely, using required minimum distributions, withdrawing only dividends/interest, and withdrawing based on existing spending. These approaches do not require the retiree to consider their total wealth value, life expectancy, or life goals, let alone other complicating economic factors.[11] RMD rules are mandated and set by the government. Withdrawing based on dividends is dictated by the performance of the portfolio. Existing spending is dependent on a retiree's status quo. Therefore, retirees must do little work to determine how much to pull when using these approaches.

The more complex spending strategies require people to grapple with more variables, such as their wealth and goals, as well as future uncertainty. These more nuanced strategies can also grow in complexity. For example, adjusting from a safe spending rate based on inflation requires less work on the part of the retiree than a dynamic spending strategy that shifts based on economic conditions and realized portfolio performance.

It's of note that relying on a financial advisor is a strategy that can vary in its complexity and engagement. A retiree may totally hand over these decisions to an advisor, requiring little effort on their part, but they can also scale up in terms of engagement and complexity based on how "hands-on" they are in financial-planning decisions. A retiree who is actively engaged in the financial-planning process may be working with their advisor to consider the complexity of retirement spending decisions.

Retirees may also use a combination of simple and complex strategies, so they were allowed to select as many strategies as they used to capture across this spectrum. Many processes suggest starting simple by considering factors like current expenses and existing mandated rules. From there, retirees can stop or incorporate these factors in more advanced calculations to determine a withdrawal rate. Allowing participants to pick as many as they use permits us to tap into how their strategies may grow in complexity and engagement, especially for those working with an advisor.

Many Retirees Rely on Simple Spending Strategies

We found 53% of retirees report using only one strategy when making withdrawal decisions. Of these retirees, the most reported spending strategy was withdrawing funds based on the required minimum distribution (26% of those using just one strategy).

Of all retirees, the most common strategies were: *Calculate how much to withdraw based on my expected expenses* (36%); *Withdraw the required minimum distribution* (35%); and *Consult with a financial advisor* (33%).[12] Retirees who used more than one strategy also tended to use a combination of these same strategies, with 42% of the sample using only some combination of these three approaches.

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11 Benz, C. 2024. "Should Your Retirement Withdrawals Mirror RMDs?" Morningstar. May 7, 2024. https://www.morningstar.com/retirement/should-your-retirement-withdrawals-mirror-required-minimum-distributions

12 These were also the most common strategies when just looking at retirees whose majority of income was sourced from their retirement savings account.

Further, we examined the number of retirees who just used simple strategies; that is, we calculated the number of retirees who reported using a combination of only hands-off strategies: withdrawing based on RMD, expected expenses, dividend/interest income, or advisor consultation. We found that 50% of retirees used only simple strategies.

A third of participants reported they were currently working with an advisor. Like the full sample, many of these retirees (53%) depended on a combination of these four simple strategies (RMD, expense, dividends, advisor) to determine their spending withdrawal rate. In these circumstances, it is likely their advisor will follow a more advanced strategy to determine an adequate spending level. However, based on their responses, many of these clients seem unable to identify what other strategies may be used by their advisor—suggesting they lean toward a more hands-off approach to working with their advisor. It's important to note this level of disengagement is not necessarily a bad thing as long as investors have enough confidence in their advisor to fully spend the income they pull. However, existing research, along with anecdotal evidence from advisors, suggests this is often not the case, and retirees continue to struggle to spend down their savings.

Moreover, we found that most retirees are resistant to changing their chosen spending strategy, as most retirees in our sample (98%) had no intention of changing their approach. Of those who did intend to change, many did not tend to have a tactical reason for doing so; they instead reported their plan would change once they came into money (such as becoming eligible to receive Social Security) or if the need arose (such as if they ran out of money or encountered a new expense).

Overall, half the retirees in our sample depend on and are committed to simple, hands-off approaches when determining their retirement spending. In this way, retirees seem to avoid grappling with factors that could help them balance the competing goals of maximizing spending while ensuring the longevity of their savings. Instead, they depend on status quo spending, existing rules, dividends and interest, or a financial advisor to make the decision for them. These strategies allow the investor to disengage from withdrawal decisions but come at the cost of missing out on potential spending.

Understanding Retiree Decision-Making

It's difficult to pinpoint the exact reasons why retirees tend to pick simple[13] approaches to determining how much to spend. However, existing literature, along with our data, may shed some light on retirees' decision-making.

The first possibility is that retirees have not saved enough money, so they must keep it simple by only drawing as much as their expenses dictate or as is required. However, this explanation is unlikely for our given sample. Our participants represented those with more than the median amount of assets in their retirement savings plans, and previous work has found that those in the top three quintiles underspend

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13 For these analyses, a retiree was recorded as using a simple approach if they noted using any or all of the hands-off strategies and no other strategies: *Calculate how much to withdraw based on my expected expenses; withdraw the required minimum distribution; consult with a financial advisor; and withdraw only the dividends and interest from my portfolio, leaving the principal untouched.*

from their savings relative to what they safely could.[14] Furthermore, the retirees in our sample were overall confident in their savings—with 73% reporting they were not worried about running out of money—and their overall confidence in how they'd prepared for retirement did not predict their tendency to lean on simple rules.[15] Thus, it does not seem these retirees were picking simple approaches out of necessity.

Another possible reason why retirees prefer simple approaches is that they want to keep a hefty reserve of savings to manage longevity risk or for bequest motives. Given the wealth level of our sample, these simple approaches to drawing down on retirement funds are likely conservative for most, meaning retirees can be confident they will have money to fund longevity risk or bequest motives. Moreover, existing research finds that longevity risk and bequest motives do not entirely explain retiree spending decisions when a retiree underspends throughout their lifetime. These findings were echoed in our data, which found that investable assets, predicted life expectancy, and expectancy of long-term care did not predict the use of simple strategies.[16]

Another possible explanation is that retirees do not have the financial literacy skills needed to engage in more complex strategies. However, in our sample, we do not find consistent support for the notion that retirees chose these strategies because of a lack of financial sophistication. Retirees who were more financially literate were less likely to use simple approaches, but the size of the effect was small, indicating there is more at play than just financial literacy. Further, retirees used simple approaches regardless of their subjective financial literacy or mathematical skill.[17]

In sum, it does not appear that retirees use simple rules for drawing on their retirement savings because they do not have enough money, are attempting to save the funds for future use, or cannot account for more complex factors. Why do they choose simple strategies when it may mean spending less than they possibly could? We posit that retirees do not put more effort into defining their withdrawal rate because they do not see a reason to. In our sample, retirees were confident they could continue to pay their expected expenses in the long run, but they may not have seen a reason to spend more and introduce the risk of running out of money.

Indeed, two-thirds of Americans fear running out of money in retirement—often rating the concern above death itself.[18] As such, a conservative approach may seem ideal as it helps allay this fear.

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14 Browning, C., Guo, T., Cheng, Y., & Finke, M.S. 2016. "Spending in retirement: Determining the consumption gap." *Journal of Financial Planning.* Vol. 29, No. 2, P. 42.

15 We conducted logistic regression with confidence predicting the likelihood of only using simple approaches (expected expenses, RMD, advisor) and found no significant effect (p = .660, OR = .98, 95% CI [0.89, 1.08]).

16 We conducted a logistic regression with various demographic variables predicting the use of any/all of the simple strategies and no other strategy. The analysis found no effect of expected long-term-care needs (p = 0.678, OR = 1.0, 95% CI [0.99, 1.01]), total investable assets (p = 0.192, OR = 1.10, 95% CI [0.95, 1.28]), or anticipated life expectancy (p = 0.585, OR = 0.99, 95% CI [0.96, 1.02]).

17 We conducted a logistic regression with various demographic variables predicting the use of any/all of the simple strategies and no other strategy. The analysis found no effect of subjective financial literacy (p = 0.404, OR = 0.87, 95% CI [0.63, 1.21]) or numeracy (p = 0.063, OR = 1.27, 95% CI [0.99, 1.62]. The analysis did find an effect of financial literacy (p = 0.021, OR = 0.65, 95% CI [0.46, 0.94]).

18 Allianz Center for the Future of Retirement. 2025. "How Americans feel about retirement in 2025." Allianz. https://www.allianzlife.com/-/media/Files/Global/documents/2025/07/22/09/10/EXT-1127.pdf

Although these retirees may be content with their lifestyle, this approach may contribute to underspending, creating lost opportunities for a more fulfilling retirement.

Goals May Be the Key to Motivation

In recent years, the financial industry has been concerned with retirees' lack of spending, given how little they spend compared with their potential spending amount. Our research suggests some progress can be made on retirees underspending by focusing on a step earlier in the process. Before a retiree spends, they must know how much they can spend. Our research suggests many retirees put little effort into defining this value—choosing simple strategies that do not require accounting for many variables.

For retirees working with advisors, it may not seem important to understand how their advisor arrives at the number they are told they can withdraw annually. However, advisor clients may struggle to spend their money if they don't know or understand the factors going into it. Therefore, although these retirees do not have to solve this problem themselves, they, too, would benefit from greater motivation to understand the process, as it could help them develop the confidence to enjoy the money allotted to them.

To move the needle on retirement spending, retirees may need to be motivated to define a withdrawal rate based on more than what is required. They must have a strong reason to engage in the process and squeeze every ounce of potential income out of their retirement savings. In other words, retirees must have goals.

Importance of Setting Goals in Retirement

Those who have diligently saved for retirement are no stranger to goals. However, goal discussions in retirement may need to look a little different. Before retirement, goals were needed to motivate an investor to save, but in retirement, goals are needed to motivate an investor to spend.

It may seem odd to say that retirees need to define goals when presumably many of their goals while they were working were based on how they wanted to retire. However, people tend to overestimate how much a retirement goal may actually fill their hours (or fulfill them) once they are retired. Think of a client whose motivation during their working years was to be able to retire to a place where they could live by a nice golf course—only to discover that you can only spend so many hours a week golfing. Although retirees may be living out some of their goals, they may need new goals to flesh out both their time and spending in retirement.

Engaging in goal-setting in retirement encourages retirees to ask what else is possible with their retirement income after accounting for their basic lifestyle needs. In these conversations, retirees may benefit from frameworks that push them to consider their life values and how best to align their spending to uphold these values.

For example, the PERMA-V model is a framework from the field of positive psychology that posits well-being has several components: positive emotion, engagement, relationships, meaning, accomplishment, and vitality.[19] Our previous research has found that using this framework during goal-setting can encourage investors to think about goals in a novel way and dig deeper into how their money can align with what they value most.[20] During goal setting, retirees can use the PERMA-V model as a framework to consider how existing or new goals can satisfy these components. These deeper goals may act as motivation for retirees to put in more effort to define a withdrawal rate and enjoy their income in retirement precisely because they are anchored in retirees' values.

Conclusion

Given the changing retirement landscape, many retirees must now decide for themselves how to spend down their assets in retirement. Even with resources at their disposal, this is no easy task, as it requires retirees to consider many complex and multifaceted factors.

In this research, we found that, when faced with this decision, many retirees tend to pick (and stick with) simple, hands-off strategies, like using mandated withdrawal rates or their current expenses. Although these are helpful starting points for retirement spending decisions, retirees who depend solely on these strategies may have suboptimal spending.

Our findings are aligned with existing research in this area, which finds that retirees tend to underspend in retirement. However, in our data of wealthy retirees, we did not find support for commonly posited explanations for this behavior—like a lack of capacity for handling finances or fear of running out of money—suggesting some other factor is at play.

Therefore, we posit that many retirees do not feel motivated to engage in more complex retirement decision-making. That is, retirees may not see the point of "optimizing" their spending decisions when they can maintain their existing lifestyles without fear of running out of money just by using simple strategies. In these circumstances, retirees may benefit from reconnecting with and reimagining their goals. Doing so can help retirees discover what else is possible given their retirement savings and be inspired to take advantage of their time, resources, and funds in retirement.

19 Cabrera, V., & Donaldson, S.I. 2024. "PERMA to PERMA+4 building blocks of well-being: A systematic review of the empirical literature." *The Journal of Positive Psychology*, Vol. 19, No. 3, P. 510. https://doi.org/10.1080/17439760.2023.2208099

20 Labotka, D., Lamas, S., & Murphy, R.O. 2023. "Digging Deeper for Goals: Revisiting a framework for the goal-setting process." *Morningstar.*

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