

Research Reveals Consumer Preference for “Chunk or Nothing” Retirement Spending Behavior, Despite Shroud of Shame *Opportunity to Offer New Financial Solutions for Joyful Last Chapter of Life*

(Rye, NY) – Consumer behavior reveals a marked preference for “chunk or nothing” spending and savings behavior, yet older investors feel intense guilt breaking open the retirement nest egg, according to new research by [Hearts & Wallets](#), the preeminent financial research resource for understanding consumer savings and investing needs and behaviors.

Conditioned to think in terms of steady income withdrawals by current product messaging, older people are caught between industry expectations and their own desires. The study, *Optimizing the Last Chapter: What Pre-Retirees Want From Their Money & How “Chunk or Nothing” Behavior Affects Service & Product Design for Personal Investments*, crystalizes the dilemma of many Americans who want to use their savings in chunks to do things they’ve always wanted while health permits, but feel ashamed in doing so.

Chunk or Nothing

The investor behavior of taking “chunk or nothing” instead of steady withdrawals is based on Hearts & Wallets data of more than 30,000 U.S. households over the past five years. Taking 4 percent every year doesn’t reflect the reality that spending varies in different phases of retirement. Over the past five years, Hearts & Wallets research shows about one-third of older Americans took no retirement income from personal assets. About one-fourth of older Americans took unsustainable rates in chunks of over 8 percent, over 9 percent, or more.

In 2014, 12 percent took out over 9 percent or more. Almost one-third (28 percent) took zero to less than 1 percent. Two-thirds of retirees favor occasional splurges alternating with periods of frugality. The new qualitative study provides insight into preferences and beliefs surrounding “chunk or nothing” behavior for the 52 million American households ages 55 and older who control \$29 trillion in investable assets.

“We were shocked at the level of shame in spending retirement savings,” Laura Varas, Hearts & Wallets partner and co-founder, said. “Current products promote steady income. People feel bad if they don’t conform to this norm. Older Americans strongly condemn those who spend in chunks. Yet people without pensions confess that’s how they want to use their nest eggs. Life is meant to be joyful, especially the last chapter. Taking four percent every year isn’t. Hearts & Wallets advocates responsible spending. It’s normal consumer behavior to alternate between chunk or nothing.”

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The CIALIS of Financial Services?

Giving permission to spend retirement savings as intended could enable the financial service industry to remove the stigma of taking chunky retirement income, much in the way the healthcare industry addressed treatment for erectile dysfunction, and answer a major retirement need of older Americans.

The research reveals several reasons consumers consider legitimate to tap into capital: euphoria of early retirement, taking Required Minimum Distributions, and the desire to live with “no regrets.” Investors seek tax-smart advice and flexibility on when to take a chunk of principal safely. They prefer financial products and planning split into two categories: sustenance and joy.

“The financial services industry and policy makers need to turn the canoe around and paddle in the opposite way to meet consumers halfway,” Chris J. Brown, Hearts & Wallets partner and co-founder, said. “Product and advice design needs to accommodate the ‘chunk or nothing’ norm to help people live the way they want to, more effectively, with more options for spending. No wonder people aren’t excited about new Department of Labor guidance on target date retirement funds with income, a concept tested in the groups.”

The Hearts & Wallets nationwide *Explore* series focus groups included pensioners and two sets of non-pensioners – one with more assets saved and one with fewer assets. All groups had at least one-third of participants currently in an employer-sponsored retirement savings plan. The study examines factors that affect work plans and key considerations to optimize products and services design, reactions to retirement income advice and products, and perspectives on potential new government regulations for Defined Contribution plan savings and IRA rollovers.

The New Number and Transition Readiness

Life expectancy is the new “number.” It’s the big unknown. Americans’ biggest fear is outliving income. Instead of a *retirement preparedness checklist*, people now think of a *transition readiness assessment*. Key readiness stepping stones include –

- When and how to scale back work income.
- How to handle Social Security, Medicare and 401(k) plans.
- Parents often want to finish paying for children’s education, or establish adult offspring.

The most common questions are how to optimize Social Security, spend income, taxes, health and withdrawal from multiple accounts. “There is a lot of consumer energy around how to access Social Security benefits while continuing to work,” added Varas.

Opportunities and Pitfalls for Financial Firms

Evolving investor needs open the door for firms that can address key “chunk or nothing” questions. Still, the industry has a long way to go to satisfy older investors. Vague service choices and pricing leave consumers confused. The research includes consumer feedback on a side-by-side comparison of 30 advice and guidance experiences that shows wide quality variations.

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“Financial services firms often try to be all things to all people,” Brown said. “The result is no clear differentiation of choice and lack of pricing transparency. At Hearts & Wallets we are committed to being a catalyst to inspire clearer differentiation. ”

Consumers cite three reasons why the financial services industry lags behind other industries:

- More expensive doesn't mean better.
- Only wealthy investors who pay a fee percentage on large portfolios can access top-tier service. Smaller investors can't purchase this type of advice at any price.
- Quality is a function of the financial professional, not the firm.

“The financial services industry can work harder to deliver consistent experiences and tap into the power of the consumer brand,” Varas said. “There is also the opportunity to design investor tools and financial professional services to complement each other. Full-service firms need to step up to the plate to address any gaps in retirement advice capabilities. They will also need to justify higher pricing given continued effort of self-service options to improve, which puts more pressure on fees.”

The study offers financial services firms insights to –

- Capture more assets through enhanced investment product design and positioning.
- Design and launch new products and services to address retirement income chunkiness.
- Increase wallet share by improving marketing communications for retirement and income related products and services.
- Acquire more customers by better understanding and answering key questions.

About the Hearts & Wallets Study

Methodology

Optimizing the Last Chapter: What Pre-Retirees Want From Their Money & How “Chunk or Nothing” Behavior Affects Service & Product Design for Personal Investments analyzes attitudes and behaviors of investors from 53 to 70. Part of the ongoing **Explore** nationwide focus group series, the study provides qualitative insights into investor attitudes and motivations that shape future trends. Insights are also based upon the **Hearts & Wallets Investor Quant (IQ) Database**. The IQ database platform serves as the engine for Hearts & Wallets annual reports as well as emerging trend analysis and consists annually of more than 2 million data points from 85 families of savings and investment questions asked during 40-minute interviews of 5,500 U.S. households. The integrated database engine now consists of more than 30,000 U.S. households over five years.

About the Hearts & Wallets®

Hearts & Wallets LLC is the preeminent financial research resource for understanding savings and investing needs and behaviors of American households. More than half of the top 10 retail financial services firms, in terms of assets under management and investors served, subscribe to the Hearts & Wallets Investor Quant (IQ) database engine platform with data on 30,000 U.S. households over five years. The firm's integrated research platform combines consumer marketing and strategy frameworks with a deep, practical understanding of how the investment, retirement and banking industries function. Hearts & Wallets grows financial services client businesses by illuminating new, smart ways to truly help American savers and investors. Clients better understand the unmet needs of distinct population segments, improve their products and services, gain a powerful competitive edge, and ultimately, enhance consumer lives. The company is headed by two of the leading research experts in retirement market trends for the financial services industry, **Chris J. Brown** and **Laura Varas**. Their studies and conferences are must-have resources for retirement industry strategists, product managers and marketing and sales executives. For more information, visit www.heartsandwallets.com.

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