Don’t Leave the Best for Last: Moving from Accumulation to Decumulation

An elderly couple moving to an assisted living apartment calls their son in another state for help moving their belongings. A widow in her 90s finds it difficult to clean her home, yet refuses to hire help.

These people are not wealthy, but neither are they poor. Each has more than enough to pay a moving company or cleaning crew without risking running out of money before running out of life. Yet they resist, insisting that they cannot afford these services. Why do people behave this way?

Well-being is high among people who feel they have as much money as they need. Some are wealthy, but many more are middle-class people who earn adequate incomes throughout their working years, save enough and spend their savings judiciously in retirement.

Low well-being afflicts people with low incomes, spendthrifts who spend more than they earn and frugal individuals who slip into stinginess from excessive fear, depriving themselves, their families, and those in need.

Reacting to an article I wrote for the *Wall Street Journal*, a reader replied: “Since I retired, every withdrawal from savings has been painful. So many articles are about the fear of not having enough. … This article gave me hope and the thought to pursue joy with my money, not stew in fear.”[1]

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[1] Meir Statman, “The Mental Mistakes We Make with Retirement Spending,” *Wall Street Journal*, April 24, 2017.

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Our Mental Toolbox for Managing Saving and Spending

We tackle the tasks of saving and spending with the mental tools of framing, mental accounting and self-control. We frame our money into distinct mental accounts, mainly “capital” and “income,” and set self-control rules for saving and spending.

Income includes salaries, pensions, interest and dividends. Capital includes houses, bonds, stocks and other investments. Self-control tools include automatic transfers from income such as salary, to capital such as IRA and 401(k) accounts, and automatic reinvestment of interest and dividends into mutual fund accounts, and the rule of “spend income but don’t dip into capital.”

People fortunate enough to earn adequate incomes during their working years and employ these mental tools successfully accumulate substantial savings. But these useful mental tools can become obstacles in retirement when income diminishes, and it is time to dip into capital.

One extremely wealthy man, a retired insurance company executive, wrote: “I’ve struggled with boundary issues between income and capital. I’ve actually taken on a couple of board of directors assignments so that I feel justified spending for what I consider extravagant.”

The Challenge of Self-Control and Its Impacts on Financial Decisions

Self-control is not easy to muster, and some fail to muster it at all. Wants for spending it all today overwhelm wants for saving for tomorrow when self-control is weak. Circumstances, especially poverty, can undermine self-control, breeding scarcity and narrowing options. These overload people’s cognitive and emotional resources, hampering saving, job performance and decision-making.

Some people are savers by nature and nurture. The Big Five personality traits psychologists discuss are conscientiousness, neuroticism, extraversion, agreeableness and openness. Conscientiousness is the trait most closely associated with self-control.

The retired insurance executive wrote: “The points on conscientious saving hit the nail on the head. I grew up as one of nine children of Depression-era parents. They always stressed education, achievement, savings and marital happiness over satisfying urges for material things.”

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Excessive Self-Control Can Be Detrimental

Self-control can be excessive. Indeed, *excessive* self-control is as prevalent as *insufficient* self-control. Excessive self-control is evident in the tendency to spend less today than our ideal level of spending, driving tightwads to extremes beyond frugality.

Another person wrote: “What if the enjoyment is in the saving, and the pain is in the spending?” Moreover, excessive self-control can induce a mindset where spending is what irresponsible people do, as reflected in this statement: “I’m saving now because good, admirable, upstanding people sacrifice their current standard of living to save, save, save for the future.”

The Reality of Life Expectancy and Retirement Spending Patterns

Concern about running out of money is regularly exaggerated in inflated estimates of life expectancy. Social Security tables indicate that, on average, only one in 10 of today’s 65-year-old men will live to age 95. Yet someone wrote: “With discoveries in biotech rolling out of labs in droves, we may have reached a technological tipping point as regards life expectancy. I think today’s 60-somethings will live to be 100 easy, maybe 110 — and their children will probably make it to 150.”

Reality, however, is still some distance away from the labs. The oldest-in-the-world woman, who was Italian, died at age 117 in April 2017, followed by the oldest-in-the-world man, who was Israeli, who died at age 113 in August 2017.

Moreover, older people typically spend less because of physical limitations and personal reasons. Spending at age 84, adjusted for inflation, is 23 percent less than at age 62 among college-educated American couples.[2]

One *Wall Street Journal* reader observed: “Lots of people lose a spouse and do not travel or vacation much because they are by themselves. They have enough money but just do not go anywhere or do much. They have lost their best friend and have not found a second life after losing their spouse. So, they sort of mope around and just do not do much. It is really sad. I know a few people in this situation and have tried to help, but there does not seem to be much you can do. We lose not only spouses, but friends. … Suddenly we’re left to do things alone, or not do them. Balance, while we have the resources to seek balance, is important to a fulfilling retirement.”

Spending Your Savings on Yourself and Others

We need not feel guilty about spending our hard-earned savings on ourselves. One *Wall Street Journal* reader noted: “During my career, I was a very conscientious saver and investor. I always maxed out my 401(k) contribution and put a large percentage of my salary and bonus into a deferred compensation program. I have had a difficult time changing my mindset from a saver to a spender. This article helped me make that mental transition. The first thing I did was to go out and get fitted for a new set of golf clubs and didn’t feel guilty about it!”

[2] Frederick Vettese, “How Spending Declines with Age, and the Implications for Workplace Pension Plans,” C.D. Howe Institute, 2016.

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Some people derive no pleasure from spending on themselves. Another person wrote: “If one has never derived pleasure from material things, why would that change in retirement? A cup of coffee and a walk on the beach at dawn, and I’m happy. The psychic income from being over-saved has value.”

I empathize with this reader. I, too, like a cup of coffee and a walk on the beach, even if not at dawn. But why not share “over-saved” money with family and those in need?

One woman commented: “My husband was reared by extremely thrifty parents who survived the Great Depression and WWII, and through hard work and frugality bordering on stinginess, they accumulated a very comfortable nest egg. They passed on to him their fiscal philosophies, and my husband absorbed them like a sponge.”

Her husband handled their finances, and after he died, she was amazed at how much money they had. She will have to work very hard to spend all of it, but she plans to give it her best effort. In the two and a half years since her husband died, she’s made three trips to Europe and booked trips to see lowland gorillas in Rwanda and Uganda, snow monkeys in Japan, penguins in Antarctica, and ride a horse across the Mongolian Steppes.

She booked these trips after her doctor told her that, based on her patients, 80 was when people lost their energy and enthusiasm for traveling. She has also made many donations to local charities and is setting up a trust fund for a friend's grandchild.

“My husband never reaped any benefits from his saving habits and only received three months of Social Security before dying. May others escape his fate.”