

# AI-03623 Outdated Consumption Gap in Retirement

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Tags	Investing
Created time	April 2, 2026 9:33 PM

Here is a **concise executive summary of key points** from *“Spending in Retirement: Determining the Consumption Gap”*:

## Executive Summary (Key Points)

### 1. Traditional Assumption is Flawed

Retirement models assume retirees spend a constant, inflation-adjusted amount based on assets (e.g., 4% rule), gradually depleting wealth.

### 2. Reality: Retirees Underspend

Many retirees **do not draw down assets**—instead, their wealth often **stays flat or increases** over time.

### 3. Consumption Gap Defined

A **Retirement Consumption Gap (RCG)** exists when retirees spend **less than what they could safely spend**.

### 4. Study Objective

The study compares **actual spending vs. safe spending levels** using simulations across different portfolios and scenarios.

### 5. Key Finding: Large Gap Exists

Retirees—especially wealthier ones—are spending **far below sustainable levels**, even under conservative assumptions.

### 6. Wealthier Retirees Underspend the Most

- Median wealth retirees: ~8% gap
- High-wealth retirees: up to **53% gap**

## 7. **Even with Safety Buffers, Gap Persists**

Setting aside **40% of assets** for longevity, healthcare, and bequests still leaves a gap up to **47%**.

## 8. **Income vs Spending Behavior**

Many retirees (especially wealthier ones) **spend less than their income**, meaning they don't even need to draw from investments.

## 9. **Forgone Consumption is Massive**

Over a 30-year retirement, high-wealth retirees may forgo **hundreds of thousands to over \$1M** in potential spending.

## 10. **Conservative Portfolios Increase the Gap**

Low-risk strategies (bonds, annuities) produce **more predictable income but larger unused spending capacity**.

## 11. **Uncertainty Drives Underspensing**

Key fears include:

- Longevity risk
- Medical expenses
- Market volatility
- Running out of money

## 12. **Behavioral Factors Are Critical**

Psychological barriers (not just financial constraints) drive underspending.

## 13. **Common Psychological Drivers**

- Loss aversion (fear of spending principal)
- Lack of confidence in drawdown strategies
- Cognitive decline increasing risk aversion
- "Preservation mindset" vs. spending mindset

#### 14. **Planning Gap Exists**

Few retirees have a clear **decumulation (withdrawal) strategy**, reducing confidence in spending.

#### 15. **Annuitized Income Anchors Behavior**

Retirees tend to rely on **Social Security/pensions** and treat investments as a **reserve, not spending source**.

#### 16. **Spending Declines with Age**

Real spending often **decreases over retirement**, especially in discretionary categories.

#### 17. **Lifestyle Changes Reduce Spending Needs**

More time leads to substitution (e.g., cooking vs dining out), reducing expenses.

#### 18. **Bequest Motive is Overestimated**

Desire to leave money behind **does not fully explain** low spending behavior.

#### 19. **Longevity Assumptions May Worsen Gap**

If retirees die earlier than modeled, the **actual consumption gap is even larger**.

#### 20. **Planner Implication**

Overemphasizing "don't run out of money" can **harm retirement quality** by encouraging unnecessary frugality.

#### 21. **Potential Conflict of Interest**

Advisors managing assets may (intentionally or not) reinforce **under-spending behavior**.

#### 22. **Core Insight**

The real risk is not just **running out of money**, but **never using it to improve life**.

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## Bottom Line

- Most retirees—especially wealthy ones—are **financially safe but psychologically constrained**.
- The biggest retirement inefficiency is **under-consumption, not overspending**.
- Optimal retirement planning must balance **financial safety with permission to spend**.

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If you want, I can turn this into:

- a **22-point behavioral framework**, or
- a **decision-making model (when to spend vs preserve)**, or
- a **ROL (Return-Outpaces-Lifestyle) integration** with this study.

Here is a **22-point Behavioral Framework for Retirement Spending** synthesized from the study—focused on how retirees *actually think, feel, and act*, and how to correct for it.

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# Retirement Spending Behavioral Framework (22 Points)

## I. Core Mindset Shift (1–5)

### 1. From Accumulation → Decumulation Identity

Stop thinking like a saver; start thinking like a *strategic spender of assets*.

### 2. Money Has a Purpose: Consumption

Wealth is not the goal—**lifestyle fulfillment is**.

### 3. Safety is Not Binary

You are not either “safe” or “ruined”—most retirees operate with **large safety margins**.

### 4. Accept Imperfect Forecasts

You will never know exact lifespan or returns—**spending must proceed despite uncertainty**.

## 5. Define “Enough” Explicitly

Without a clear “enough,” your default behavior becomes **under-spending**.

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## II. Risk Perception Rewiring (6–10)

### 1. Reframe Longevity Risk

Living longer is not just a financial risk—it’s a **life opportunity**.

### 2. Medical Cost Fear Needs Boundaries

Overestimating extreme healthcare costs leads to **excessive hoarding**.

### 3. Sequence Risk ≠ Spending Paralysis

Market volatility should adjust spending—not **eliminate it**.

### 4. Differentiate Real vs Imagined Risks

Many retirees defend against **low-probability, high-anxiety scenarios**.

### 5. Use Buffers, Not Total Restraint

Set aside reserves (e.g., 20–40%)—then **spend the rest confidently**.

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## III. Behavioral Bias Awareness (11–15)

### 1. Recognize Loss Aversion

Spending feels like “losing money”—this is psychological, not rational.

### 2. Avoid the Preservation Trap

Treating your portfolio only as a **backup fund** leads to wasted life utility.

### 3. Combat Inertia

Doing nothing (not spending) is an *active decision* with real consequences.

### 4. Beware of Mental Accounting Errors

Overvaluing investment principal vs. income leads to **distorted decisions**.

### 5. Acknowledge Cognitive Decline Risk

Aging increases conservatism—**pre-plan spending rules early**.

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## IV. Spending Behavior Design (16–19)

### 1. Spend Income First, Then Assets

But recognize: if income exceeds spending, **you are under-consuming.**

### 2. Adopt Flexible Spending Rules

Adjust spending dynamically instead of rigid fixed withdrawals.

### 3. Front-Load Enjoyment

Early retirement years have higher utility—**don't delay meaningful spending.**

### 4. Track “Forgone Consumption”

Measure not just what you spend—but what you *could have spent but didn't.*

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## V. Structural & Planning Adjustments (20–22)

### 1. Create a Decumulation Plan

Most retirees lack one—this is the **single biggest behavioral gap.**

### 2. Use Guaranteed Income Strategically

Annuities/Social Security reduce fear and **unlock spending confidence.**

### 3. Give Yourself Permission to Spend

The final barrier is emotional:

→ You must consciously decide that **it is okay to use your money.**

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## Core Insight of the Framework

- The problem is not financial capacity—it is **behavioral resistance to spending.**
  - Retirees are not constrained by math, but by **fear, uncertainty, and identity.**
  - The goal is to transform from a **wealth protector** → **life optimizer.**
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If you want next, I can convert this into:

- a **22-point daily/annual decision checklist**, or

- a **“Retirement Operating System” (rules-based spending model)**, or
- map this directly to your **ROL (Return Outpaces Lifestyle)** milestone.