New research presents alternative methods, like robo-advisors, to manage retirement income

August 23 2018

The need to help retirees make prudent spending decisions has led to the growth of a large industry of financial advisors, but a new article suggests that improved policy approaches may be more effective. Published in *Policy Insights from the Behavioral and Brain Sciences*, the study reviews the psychology behind rapid spending decisions and presents five policy options that lead to the smarter self-management of assets.

Decisions regarding decumulation, or the spending of savings during retirement, are often greatly affected by psychological factors, include trade-offs between current and future income, and have long term implications. Impulse, loss aversion, and the desire for ownership are all psychological predictors that can lead retirees to manage their assets poorly and spend savings too rapidly or too slowly.

Researchers from the University of California, Los Angeles and City, University of London built upon existing decumulation research in order to offer insight to public policy experts, financial industry regulators, and social program administrators. They proposed the following policy options to optimize retirement income solutions:

1. Financial Literacy: Financial training programs offered before complicated or risky investment decisions, similar to the training required to obtain a driver's license.

2. Safe Automatic Options: A low-cost option to protect a proportion of the individuals' total wealth, yet still allow discretion by the retiree for the remainder. Such an option could be built into an employee's retirement benefit program.

3. Precommitment: If individuals are at risk of future intellectual decline as a result of dementia or another similar disorder, commitment to financial decisions during younger working years could be especially useful. Options could include payments made over time.

4. Disclosures and Framing: Changes in language can also affect decumulation decisions. For example, reframing continued employment as an investment in future social security income may cause those considering retirement to feel more inclined to wait.

5. Customized Interventions: A financial robo-advisor that would perform an assessment of a retiree's key psychological drivers, biases, and inclinations before leading them through personalized solutions. Such interventions would provide policy makers with more insight to individual biases, preferences, and problem solving techniques, allowing them to work in tandem with individuals, rather than in opposition.

"Baby boomers are now retiring at the rate of almost 10,000 per day," wrote authors Suzanne and Stephen Shu. "These millions of retirees, and the families and providers who look out for their financial well-being are counting on a smarter approach to decumulation."

More information: "The Psychology of Decumulation Decisions During Retirement," *Policy Insights from the Behavioral and Brain Sciences*, 2018.

Provided by SAGE Publications