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WHY RETIREMENT MAKES SENIORS FRUGAL (AND WHY THAT MAY BE A PROBLEM)

Seniors tighten their belts in retirement, and that may not always be a good thing.

By: Maryalene LaPonsie - October 27, 2017

Most seniors aren't living large in retirement. However, that's not necessarily because they lack the money to do so.

"Those who have higher incomes are generally living too frugally," says Matt Fellowes, founder and CEO of United Income. Seniors trim an average of 2.5 percent off their spending each year, according to a white paper he drafted examining data from the government and University of Michigan. Meanwhile, estate values grew 130 percent between 2000-2002 and 2010-2012.

While it may seem as though there can be no harm in living frugally, Fellowes and other finance experts say both seniors and the economy can suffer when spending declines.

Shift of income in retirement. For workers who have earned a paycheck for decades, the shift to using income from retirement accounts can be difficult. "When people start paying themselves, they get scared," says Dolph Janis, founder and owner of Clear Income Strategies Group in Charlotte, North Carolina.

After spending a lifetime saving money, it can feel unsettling to begin pulling cash from accounts that were previously off-limits. "It's a psychological issue," says Nancy Skeans, CEO of Schneider Downs Wealth Management Advisors in Pittsburgh. It's something even her more affluent clients experience. "They are really apprehensive about spending $30,000 or $40,000 for a new car," she says, even when they can clearly afford it.

Health care, economic concerns stifle spending. Health care costs and the economy also rank high as motivation to cut spending. In particular, today's longer lifespans breed uncertainty about if and when retirement money will run out.

"The good news is you get to live a long life," says Stephen Daney, investment advisor at Better Money Decisions and founder of The Life Money Center in Albuquerque, New Mexico. "The bad news is that you may have only planned for [age] 75 or 80."

Skeans says her clients are particularly concerned with how to pay for health care. "[They worry] about the unknown cost of what it's going to cost to take care of me when I'm 85 years old," she says. Some people are also concerned about market fluctuations and worry about a future recession wiping out savings. "People continue to refer back to 2008," Skeans says. "What if it happens again?"

Television might be partly to blame. The Bureau of Labor Statistics reports seniors watch significantly more television than younger age groups. While people 35 to 44 years old watched an average of two hours of TV programming each day in 2016, the number jumps to four hours for those 65 to 74 years old. "As people follow news more closely, they may become more susceptible to a negative viewpoint," Fellowes says. News tends to sensationalize changes in the market, which can result in people holding on to their money too tightly.

Dangers of extreme frugality. Being frugal may seem like a virtue, but it doesn't come without faults. The most obvious problem is that it's difficult for seniors to enjoy retirement if they refuse to spend any of their money. "If you become obsessed with penny-pinching, that's a problem," Daney says.

Fellowes says the problems go deeper than that. According to his research, seniors may delay preventive care or withdraw from social activities in order to save money. Both can have a negative effect on senior health and well-being.

There is also a larger economic issue at play. In 2012, consumer insights firm Nielsen predicted baby boomers would hold 70 percent of disposable income in the U.S. by 2017. "You have this population that has stockpiled assets and isn't putting [them] back into the economy," Fellowes says. Although hard to quantify, that could have an economic effect at the national level.

How to find the proper balance. Janis says there is a relatively simple way for seniors to avoid hoarding money they could be spending to enjoy their retirement years. "Too many people are worried about how much money they have and not enough about how much income they have coming in," he says.

Instead of lumping all retirement funds into one bucket, Janis divides them into guaranteed and non-guaranteed sources of income. Periodic payments from Social Security, traditional pension plans and annuities can all be considered guaranteed, and seniors should be sure their fixed expenses can be covered by these sources.

"When I'm doing a [financial] plan, Social Security should take care of medical needs and living expenses," Janis says, assuming his client doesn't have an annuity or pension. "It shouldn't cover your lifestyle." Lifestyle expenses such as travel and dining can be taken out of 401(k)s, IRAs or other savings.

Being too frugal in retirement doesn't seem like the worst problem to have, but there is no reason to hold onto your cash when you could be using it to enjoy your golden years more fully.

Randall "Dolph" Janis, founder and owner of Clear Income Strategies Group, has been in the retirement services industry for more than 11 years, building a strong network of satisfied clients in Charlotte, N.C. and surrounding areas. Dolph's goal is to provide fulfillment for the visions, hopes and dreams from baby boomers to seniors by providing common sense solutions for their retirement needs.

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