

# **Habitual and Behavioral Considerations when Switching from Accumulation to Deaccumulation**

## **Introduction**

For many, the transition from accumulation to decumulation and income phase of the financial journey can be challenging. The difficulties connected with this transition are often based on behavioral and habitual patterns of behavior that can impede the ability to make the shift successfully.

In this blog post, we will explore the reasons why many people struggle with the switch from accumulation to deaccumulation and review the behavioral and habitual patterns that play such a significant role.

### **1. Fear of Running Out of Money**

Perhaps the most significant psychological hurdle faced in transitioning to the deaccumulation phase is the fear of running out of money. We are conditioned to save and accumulate wealth. When it's time to start using those savings and investments to cover living expenses the fear of depleting their assets can be paralyzing. This fear can lead to a reluctance to withdraw funds even when it's necessary to sustain financial well-being.

### **2. Overly Conservative Investment Strategies**

A second consideration that may hinder the switch to deaccumulation is an overly conservative investment strategy. Research shows many individuals are risk-averse and prefer low-risk, low-return investments as they approach retirement. This strategy can lead to lower returns in retirement making it challenging to maintain their desired lifestyle. Having a strategy to limit market volatility and adjusting how much risk to take in investment strategies to align with investment goals is crucial.

### **3. Inertia and Inaction**

Habits can present a significant barrier to transitioning from accumulation to deaccumulation. People often become comfortable with their financial routines

and find it difficult to break out of them and so they stay in a self-reinforcing loop. The satisfying routine to continue saving and accumulating funds can result in missed opportunities to optimize withdrawals and make the most of retirement assets. That makes for an unhappy retirement, always fearful of running out of money.

#### **4. Lack of a Clear Written Plan**

Many people fail to decide what they want their money to do for them. Without that clear understanding they will fail to create a well-defined financial plan for the deaccumulation-income phase. Without a clear plan in place retirees, soon to be retirees often find themselves worried about money and lack a sustainable withdrawal plan.

There is also a lack of understanding that there are three methods of generating retirement income. These are flooring, safe withdrawal, and guiderails. Whichever method is selected will provide more certainty than no plan which leads to financial anxiety and financial stress.

#### **5. Lifestyle Adjustments**

Many people fail to create a retirement income plan for their retirement. Without knowing what they want their money to do for them they need to create a new budget or adapt an old one, reduce certain expenses, or explore alternative income sources. They may need to work longer and must postpone retirement. The resistance to making these adjustments can be attributed to the habit of living a certain way for many years.

#### **6. Overcoming the Challenges**

While transitioning from accumulation to decumulation can be challenging but it is not insurmountable. Here are some strategies to help navigate this crucial financial transition:

- Develop a written retirement income plan along with a retirement activity and life plan. Work with a financial advisor who specializes in the deaccumulation-retirement income phase to develop and write this plan

down on paper. Agree on the amount of risk to be taken, your income sources, expected expenses, and withdrawal strategies. Which of the three will you be using?

- Embrace and be open to a Flexible Mindset: Be open to adjusting your investment strategy and lifestyle to ensure long-term financial security so you do not spend your time worrying about money.
- Seek Out Professional Guidance: Consult with a retirement income specialist to make informed decisions about your risk tolerance, risk capacity, asset allocation, and your withdrawal strategies.
- Educate Yourself: Take the time to obtain an understanding of the retirement planning process, investment, income sources, and withdrawal strategies so you can make informed choices about your money.
- Gradual Transition: Start shifting gradually from accumulation to deaccumulation by creating income assets, phasing out of work or working a longer number of years depending on your circumstance and adjusting your income sources over time.

### **Conclusion:**

The transition from accumulation to deaccumulation is the critical phase in the financial journey and it is often subject to behavioral and habitual challenges. Overcoming these obstacles requires being open to considering change. What is also required is detailed planning, a written retirement income plan, a flexible mindset, and a willingness to adapt to the new financial realities faced by retirees. By facing these challenges head-on and seeking professional guidance as needed individuals can successfully navigate this transition and enjoy a financially secure retirement.

It's never too early to start planning your future financial well-being and retirement success. Successful people are usually happy people. After all, isn't retirement all about being happy?

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