RESEARCH ARTICLE

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The Intended Prioritized Selling of the Nest Egg by US Baby Boomers during Retirement

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Abstract
This paper examines the prioritized selling of the nest egg by baby boomers during their retirement years. To this end, a written questionnaire was mailed to 2500 randomly selected United States adults born between 1946 and 1964. Potential respondents were asked financial planning questions and also requested to list their main concerns and the hobbies they intend to pursue during retirement. The most noteworthy findings from this study indicated that future retirees expect to sell their International investments relatively quickly while selling their 401(k) comparatively last. Several prominent authors have concentrated on the pre-retirement approach, or the saving and investment phase of asset accumulation. However, only a limited amount of research has been conducted on baby boomers financial perceptions of life during retirement. Countless asset withdrawal studies have used complex Monte Carlo computer simulations to determine a safe percentage rate subtracted from the retirement nest egg each year and still maintain a long term comfortable lifestyle. This study brings into the financial planning discussion the human part of the equation which includes future retirees' perceptions, opinions, attitudes and intentions. The importance of this study is the reporting of baby boomers' future selling intentions of the nest egg. Knowledge of these selling intentions will assist the financial community prepare for the retiring of 77 million adults.

Keywords: *Baby boomers; retirement perceptions; nest egg selling; financial planning.*

1. Introduction

Differentiated by an impressive increase in the birth rate following World War II, approximately 77 million baby boomers, equivalent to one quarter of the United States population, comprise one of the largest generational age cohorts in U.S. history [1]. The baby boomer generation, those persons born between 1946 and 1964, will represent the largest age grouping of workers to approach retirement in the United States. Beginning in 2011, the oldest of the baby boomers will begin turning 65 years old. Baby boomer retirements should continue at least until the end of 2029 when the oldest baby boomers reach sixty-five, or possibly later as some workers could be forced to delay their retirement date [2].

During its 235 year history, the United States has never experienced such a massive amount of workers retiring in any given nineteen year time span. The retiring of millions of US baby boomers with spending power, coupled with their buying and selling actions of investments, will become a significant chapter in US financial history. Throughout their working life, many of these soon-to-be retirees have been the periodic purchasers of investment products. During retirement these baby boomers will in essence become the sellers of their assets. According to the Investment Company Institute, which is the National Association of United States investment companies, the amount of retirement assets in the second quarter of 2011 totaled 18.2 trillion dollars [3]. Literally, trillions of dollars will potentially be shifting from the consumer savings and the investment sector into the selling off and spending phase by retirees. The next two decades will alter the way we think about retirement planning and in turn will present a new challenge to America's financial network. For years, future retirees and financial planners in the United States have largely concentrated on a pre-retirement approach, or the saving phase of asset accumulation. Many of the previous studies have utilized intricate Monte Carlo computer simulation models, such as by Qianqiu [4], who recommended that bonds be sold first by workers when they retire. However, little financial research has concentrated on the post-retirement human element. Therefore, in an effort to gain added insights into the financial planning process, this study has solicited US baby boomer perceptions, opinions, attitudes, and the intended prioritized selling of their nest egg during retirement.

2. Literature Review

2.1. Inadequate financial planning

Although the retirement dream is just around the next rainbow for many baby boomers, storm clouds may be lurking on the horizon for some less fortunate baby boomers. Many future retirees have simply not saved enough money for their retirement years [5]. Studies have documented that a large percentage of US baby boomers are not financially prepared for retirement. According to a Transamerica Retirement Survey [6], only 10% of Americans were very confident and 41% somewhat confident in retiring comfortably, furthermore, only 9% strongly agree, and 29% somewhat agreed that they were building a large enough nest egg for retirement. In the 2011 Retirement Confidence Survey, a reported 20% of workers say the age at which they expect to retire has increased in the past year because of the poor economy, lack of faith in Social Security, change in their employment, cost of living in retirement will be higher than expected, and retirees will need more money to retire comfortably [7].

2.2. Female baby boomers

The retirement years appear to be especially bleak for some baby boomer women. Women generally will be less well-off in retirement than men for many reasons, including the longer life expectancy for women [8], plus women are likely to have earned less than men during their working years [9]. Women also differ in their approach to retirement planning [10], especially since nearly 80 percent of women admit they are behind on planning for their retirement [11]. According to a Wells Fargo retirement survey, although both many men and women are underfunded for retirement, women save a lesser amount each year than men for their retirement [12]. Making matters worse, widowed, divorced and single baby boomer women are more than likely to face poverty during their retirement years mainly due to the fact that singles don't have the same opportunities to share the costs for things like accommodations, vehicles, and running a household [13].

2.3. Post retirement withdrawal rate quandary

A multifaceted problem for new retirees is to determine the percentage rate of the nest egg a person can afford to safely spend annually without eventually running out of money sometime in the future. In other words, the withdrawal rate is a given percentage subtracted from the retirement nest egg in order to maintain a comfortable lifestyle. The withdrawal percentage rate cannot be too high, because retirees would outlive their savings. A withdrawal rate too low would result in retirees not fully enjoying their golden years. Numerous authors have explored the withdrawal rate question. In his historic analysis, Bengen [14] concluded a safe withdrawal rate will usually be about 4 percent. A study by Cooley [15] concluded that a 4 percent withdrawal rate had nearly a 100 percent chance of success without the retiree running out of money in the future. The author Ameriks [16], a research economist at the TIAA-CREF institute, concluded in his analysis that a 4.5 percent withdrawal rate can be sustained for twenty year time periods, or longer. Guyton [17] employed Monte Carlo simulation methods that also supported the initial withdrawal rate hypothesis. However, in 2010 everything changed. Pfau [18] disputed the fixed withdrawal rate by concluding the financial climate no longer supports the 4 percent rule. In 2011, the editor of the *Journal of Financial Planning* modestly noted that Pfau's paper on the demise of the 4 percent rule could likely stimulate an ongoing dialog [19]. Pfau [20] continued his research by again concluding that the 4 percent rule certainly cannot be considered safe in light of the unprecedented market conditions of recent years. In spite of all the above mentioned challenges baby boomers may encounter, there still remains trillions of dollars which will potentially be spent by baby boomers during their retirement years. The research presented in this paper will attempt to shed light on the spending phase of the retirement nest egg. This paper's intention is to provide information designed to assist both baby boomers and financial practitioners design pragmatic retirement plans.

3. Methods

A written questionnaire was developed with the collaboration of financial institutions and retirement planning organizations. To assist in the questionnaire development two focus groups were conducted with baby boomer participants. A mailing list was purchased containing the names of 25,000 randomly selected persons living in the United States born after December 31, 1945 but before January 1, 1965. From the list of 25,000 names, two hundred fifty randomly selected US baby boomers were mail the pre-test questionnaires. The results of the two focus groups and the pre-tested questionnaires influenced the final version of the written questionnaire. Two thousand five hundred randomly selected US baby boomers were then mailed the finalized version of the written questionnaire. Included with the survey, were a pre-addressed self-return envelope and a cover letter explaining the importance of the study. Potential respondents were asked questions concerning their upcoming retirement years. Overall, 179 letters were returned, unopened, and marked return to sender, leaving an effective sample size of 2321. In total, 388 usable returns were tabulated, resulting in a response rate of 16.7 percent.

It should again be noted that focus groups were used to develop the written questionnaire. During the focus group sessions, persons would temporarily secede from the financial planning topic to discuss their concerns and their hobbies when retired. Attempts where successfully made to get the baby boomers back on track, but inevitably, they returned with a group discussion on retirement concerns and hobbies. It was somewhat of a minor distraction. Eventually, sufficient knowledge and understanding was garnered to later test and develop the survey instrument. Respondents were not asked in the pre-test questionnaires to report their retirement concerns or hobbies. Nonetheless, they included their retirement concerns and hobbies, usually on the reverse side of the pre-test questionnaire. Because of their resolve, it was decided that these two non-financial concerns were exceedingly important to the respondents and, therefore, would be included in this study.

4. Results and Discussion

The demographic characteristics of the sampled respondents follow. As for gender, respondents were 48% male, 42% female and 10% did not answer. Respondents' marital status equaled: 46% married; 20% single; 9% divorced; and 15% widow/widower, and 11% did not answer. The next section inquired as to the number of part time hours per week baby boomers plan to work when they are retired. Results showed 18% did not want to work part-time after retirement, 13% would work part-time 1-10 hours per week, 24% 11-20 hours, 9% 21-30 hours, 6% 31-40 hours, 4% more than 40 hours per week, and 25% reported they either did not know or did not answer.

The next question was open-ended and asked baby boomers, what percentage of their current income they would need when retired. Table 1 for the most part reported that most baby boomers, 52%, either did not know or did not answer the percentage of current income they would need during retirement. Table 1 does report a modest grouping of responses. Thirty-seven percent of the respondents reported they needed a retirement income somewhere between 50-100% of their current income.

Table 1: Percentage of current income US baby boomers will need during retirement.

Percentage of current income needed at retirement	Percent of baby boomers responding
Zero percent	2%
1-24 percent	3%
25-49 percent	4%
50-60 percent	11%
61-75 percent	12%
76-100 percent	14%
> 100 percent	1%
Did not know or did not answer	52%

Table 2 reports the top eleven baby boomer concerns during their future retirement years. The question asked was open-ended in nature. The responses given to this question were not prompted or suggested by any multiple choice categories. For this question, it was not unusual for many of the respondents to answer with five or more distinctive concerns. Health, money and family matters were the top reported concerns. Baby boomers in point of fact responded with 7.7% not getting enough sex and 5.7% reported fear of Conservatives.

Table 3 reports the baby boomers top eleven hobbies and activities they anticipate doing during their retirement. Baby boomers reported hundreds of diverse activities they wished to pursue during their retirement. The top four reported responses were reading, traveling, golf, and fishing. Many replies to this question and the previous question were explained by the respondents in much detail on the reverse side of the questionnaire. Twenty respondents returned the questionnaire and moreover included a typed letter clarifying their concerns and activities while also thanking the author(s) for being so thoughtful by asking them for their participation in a research study regarding retirement.

Table 2: Baby boomer concerns during retirement.

Concerns during retirement	Percent of baby boomers responding*
My health	42.8%
Enough money	24.7%
Healthcare costs	13.9%
Family concerns	13.4%
Inflation	11.3%
Not getting enough sex	7.7%
Keeping my lifestyle	6.7%
Ability to travel	6.2%
Keeping my health insurance	6.2%
Fear of Conservatives	5.7%
Gas prices	5.7%

* Percentages do not add up to 100% because respondents could answer multiple times.

Table 3: Baby boomer anticipated hobbies and activities during retirement.

Anticipated hobbies and activities during retirement	Percent of baby boomers responding*
Reading	48.0%
Travel	41.2%
Golf	24.2%
Fishing	20.6%
Gardening	11.3%
Volunteering	10.8%
Walking	10.3%
Grandchildren	9.8%
Woodworking	9.8%
Working out	9.3%
Socializing	9.3%

* Percentages do not add up to 100% because respondents could answer multiple times.

The next question was open-ended and requested the sampled population to provide an estimate of the annual percentage withdrawal rate of their nest egg during their upcoming retirement years. Not surprisingly, Table 4 illustrates the majority of the respondents either did not know or did not answer any percentage withdrawal rate amount. It should be noted that perhaps a number of baby boomers had researched the topic, since 15% of the respondents replied with a 4% withdrawal rate of their nest egg.

Table 4: Annual percentage withdrawal rates of the nest egg as anticipated by US baby boomers.

Anticipated annual percentage withdrawal rate	Percent of baby boomers responding
0 percent	3%
1-2 percent	3%
3 percent	3%
4 percent	15%
5 percent	6%
6-9 percent	4%
10 percent	5%
> 10 percent	1%
Did not know or did not answer	59%

Table 5 illustrates the percentage replies from the baby boomers for the question pertaining to the selling priority of the nest egg after retirement. The highest reported "Sell/Spend First" by respondents was Pension, with 56% of the sampled population indicating they would sell/spend this type of nest egg first. The next highest was Cash savings, with 43 percent. The highest reported "Sell/Spend Last" by respondents was Real Estate, with a 51% response (Table 5's seven individual sell/spend columns do not necessarily equal 100 percent because the respondents were not forced to rank order the nest egg money sources from sell first to sell last. Row totals do not exactly equal 100 percent due to rounding).

Table 5: The prioritized selling of the nest egg as anticipated by US baby boomers during retirement.

	Sell, Spend FIRST*	Sell, Spend Approx. NEXT	Sell, Spend Earlier than Average	Sell, Spend AVERAGE	Sell, Spend Later than Average	Sell, Spend NEXT TO LAST	Sell, Spend LAST
Bonds	5	12	3	45	10	20	5
Cash savings	43	6	3	21	11	4	12
CDs	10	25	20	19	17	3	6
401 (k)	5	3	8	53	4	19	8
International Investments	19	24	25	23	5	3	2
IRA, Keogh, SEP	2	11	11	39	14	15	8
Mutual funds	2	11	23	26	31	5	3
Pension	56	21	8	6	3	5	2
Real estate	3	5	4	4	12	22	51
Stocks	8	23	12	26	14	6	12

* Column totals do not equal 100% because respondents were not forced to rank order their prioritized selling of the nest egg.

Table 6 is the essence of this research study. It reports a more accurate portrait of the future retirees' perceptions concerning which components of the nest egg they intend to sell off first till last. Table 6 also includes a selling index meant to benefit both future retirees and financial planners. For purposes of this study it was decided to compute the mid-point sell/spend category, AVERAGE, equaled to the index number 100. Each of the ten nest eggs selling indexes was calculated by multiplying: 'Sell/Spend First', **S1** multiplied by 0; 'Sell/Spend, Approximately Next', **S2** multiplied by 33.33; 'Sell/Spend Earlier than Average', **S3** multiplied by 66.67; 'Sell/Spend Average', **S4** multiplied by 100; 'Sell/Spend Later than Average', **S5** multiplied by 133.33, 'Sell/Spend Next to Last', **S6** multiplied by 166.67; and 'Sell/Spend Last', **S7** multiplied by 200. Therefore, the selling index was calculated by the following formula:

$$\text{Indexed score} = (\mathbf{S1}*0 + \mathbf{S2}*33.33 + \mathbf{S3}*66.66 + \mathbf{S4}*100 + \mathbf{S5}*133.33 + \mathbf{S6}*166.66 + \mathbf{S7}*200)/388$$

According to the data presented in Table 6, the nest eggs retirees would sell/spend relatively early would be: pensions, International investments and cash savings. The investments that future retirees would keep the longest, or sell/spend relatively last, would be: IRAs, Keogh and SEP; 401(k); and real estate. The survey's findings reported in Table 6 contradict Qianqiu's [4] Monte Carlo computer simulation model that recommended bonds be sold off first by workers just beginning to enter into retirement. According to this study's survey findings, retired baby boomers intend to sell/spend bonds slightly later than average with a 107 index number.

Table 6: Indexed scores of nest egg selling by baby boomers during retirement.

	Indexed score*	Prioritized selling
Pension	34	Sell first
International investments	61	2nd
Cash savings	71	3rd
CDs	80	4th
Stocks	94	5th
Mutual funds	99	6th
Bonds	107	7th
IRA, Keogh, SEP	109	8th
401 (k)	112	9th
Real estate	162	Sell last

* A 100 index = average selling rate, index < 100 = selling faster than average, an index > 100 = selling later than average.

5. Conclusion

The retiring of 77 million baby boomers will require scripting a new chapter in the history of financial planning. Workers in the United States have accumulated varying amounts of financial wealth to spend during retirement. As retirement draws near, consumers will be shifting from the resource accumulation phase of their lives to resource disbursement. Trillions of dollars will be sold off and spent by workers as they begin to enter retirement. The major finding from the study concerned the prioritized selling of the nest egg. The data indicated that future retired baby boomers expect to sell their International investments relatively quickly while selling their 401(k)s almost last. Financial advisers should also realize how important the concerns, hobbies, and activities are to the baby boomers during retirement.

Financial practitioners and consumer investors alike would benefit from analyzing the survey results of this study. Financial planners need to resolve how the data presented in this study will affect the longevity of their client's nest egg. Retirees will need to plan which nest egg components they wish to sell or spend first. Armed with the insights presented in this paper, retirees who are selling assets and consumers who are buying investments will be better able to develop more effective strategies in order to maximize their individual objectives. A somewhat related finding of this study is that baby boomers' number one concern during retirement is health related and not financially oriented.

It appears obvious from this study's findings and the literature review that many baby boomers need immediate financial planning assistance. In keeping with this paper's stated intention to provide information designed to assist both baby boomers and financial practitioners develop pragmatic retirement plans, the following three step approach is recommended. The first step recommends that baby boomers should increase their knowledge concerning the subject of retirement planning. Topics to be researched include: retirement basics; anticipated lifestyle during retirement; estimated life expectancy; age at start of retirement; total nest egg required; and the annual percentage withdrawal rate from the nest egg. Most of these questions should be adequately answered by visiting several popular on-line retirement websites. A good starting point would be the United States Social Security Administration's website [21]. This website provides detailed information concerning the Social Security retirement benefits under the current law, and emphasizes several retirement options to consider. Another potential website, AARP, the American Association of Retired Persons, offers an easy to use interactive retirement planning calculator [22]. Additional on-line websites include: the Teachers Insurance and Annuity Association – College Retirement Equities Fund, TIAA-CREF [23], CNNMoney [24], TOS50, The other side of 50 [25], and the Women's Institute for a secure retirement [26]. The second step recommends baby boomers establish a collaborative dialog with a financial adviser in an effort to ascertain the accurate calculation of the size of the nest egg required to realize their retirement dreams. The third step recommends both baby boomers and financial advisers seek out the insights from data enhanced retirement planning studies.

The main limitation to this study consisted of the research instrument which focused on collecting respondents' current perceptions and future selling intentions. Another limitation for this study might be the small sample size, n=388. Future research could concentrate on the actual selling of nest egg components by baby boomers during retirement. A secondary area of interesting and informative research would be to inquire as to the things female baby boomers would do differently in their lives and also request from them the kind of guidance they would give to women in their twenties and thirties. Additional studies might investigate the reasons why 15% of respondents in Table 4 reported a 4% withdrawal rate from their retirement nest egg. Was the reported 15 percent amount simply due to random chance, or did the respondents answer from prior knowledge of the subject? (Knowledge obtained from friends, family members, financial advisers, print & broadcast material and the Internet).

Competing Interests

The author has no competing interests in the results of this study.

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