

Boost Retirement Security: Why Guaranteed Income Beats Savings

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Research shows retirees hesitate to spend savings but readily use lifetime income. Here's what this means for you.

In this week's retirement research, we break down "Retirees Spend Lifetime Income, Not Savings" by David Blanchett and Michael S. Finke.

"Retirees Spend Lifetime Income, Not Savings" Abstract

The shift to defined contribution savings plans means that more retirees must fund spending from savings. Prior studies find that there appears to be a behavioral resistance to spending down savings after retirement in a manner that is consistent with life cycle models. We explore how lifetime income, wage income, capital income, qualified savings, and nonqualified savings are used to fund retirement spending. Retirees spend far more from lifetime income than other categories of wealth. Approximately 80% of lifetime income is consumed, on average. In contrast, only about half of available savings and other income sources are consumed. Withdrawal rates from savings are well below typical guidance and the analysis suggests that converting savings into lifetime income could increase retirement consumption significantly, especially for married households.

Read [Retirees Spend Lifetime Income, Not Savings](#).

Actionable advice

Based on this research, here are the key actionable recommendations for retirement planning and spending:

1. Consider converting some retirement savings into lifetime income sources (like annuities) since retirees are much more likely to spend consistent income streams compared to drawing down savings accounts. This could help increase quality of life in

retirement through higher consumption.

2. If you're approaching retirement, evaluate your mix of income sources versus lump-sum savings. The research suggests you may benefit from having more guaranteed income streams rather than relying primarily on drawing down savings accounts.

3. When planning withdrawal rates from retirement savings, be aware that most retirees naturally withdraw much less than the often-recommended rates (like the 4% rule). While this provides safety, it may lead to unnecessary frugality and reduced quality of life.

4. For married couples in particular, exploring options to convert savings into lifetime income could be especially beneficial, as the research specifically notes this group could increase their retirement consumption significantly.

5. Consider working with a financial adviser to analyze whether your current balance between lifetime income sources (like Social Security, pensions, annuities) and traditional savings accounts is optimal for your retirement goals and spending patterns.

The key insight is that retirees tend to spend much more freely from guaranteed income sources than from savings accounts. This suggests that structuring more retirement wealth as income rather than lump sums could lead to better retirement outcomes for many people.
