

# Challenging conventional wisdom

🔍 **The pensions industry often says that retirees should withdraw 4 per cent per annum from their drawdown fund to have it last their lifetime, and that their at-retirement spending will form a 'U-shaped' curve, of spending a lot initially, then dropping down, before rising again as health needs occur. But do these maxims represent the reality of what's occurring?**

## 🔍 Summary

- It is recommended that retirees withdraw from their drawdown at a rate of 4 per cent a year to avoid the risk of depleting the fund. However, research find retirees are often withdrawing much higher amounts, with some finding withdrawals of 8 per cent per annum.
- The expectation that at-retirement spending will follow a 'U-shaped curve', with retirees spending more in active years and less in mid-retirement, before spending rising again to cover healthcare costs, is in reality far more nuanced.

Ever since the freedom and choice reforms put the responsibility of achieving a retirement income for life firmly into the hands of the individual, the industry has tried to assist them by providing 'simple' withdrawal rules and assumptions. But do retirees abide by these rules, and are they even still relevant in a changing retirement landscape – or are rules made to be broken?

"Withdrawal rates and spending patterns are likely to be far more variable than traditional models assume. Static rules, e.g. the 4 per cent or U-shaped spending assumptions, are too simplistic," Hughes Price Walker director, Ray Hughes, warns.

## 4% rule

Take the conventional '4 per cent rule' for sustainable drawdown withdrawals. "The reality is that retirees' withdrawal

behaviour hasn't always matched the traditional 4 per cent rule," PensionBee chief business officer UK, Lisa Picardo, says.

There is relatively limited UK-specific data on drawdown, especially in later retirement, to allow a high confidence in any conclusions drawn, Hughes says, "Data from the FCA [see graph] suggests that recent withdrawals are well above the 4 per cent rule overall and these will be biased towards those in early to mid-retirement," he adds.

"The evidence suggests a widening gap between industry expectations and member behaviour," Legal & General CEO DC & Workplace Savings, Paula Llewellyn, agrees.

"Although the 4 per cent figure has long been referenced as a guide for sustainable decumulation, recent FCA data shows a shift in people accessing their pensions, with industry analysis

suggesting nearly half of pots in 2024/25 are being withdrawn at 8 per cent or more, double the level typically considered sustainable," she adds.

IFS research last year found that a quarter (26 per cent) of DC pots worth £250,000 and above from which regular withdrawals were being made (representing 124,000 pots in 2023–24) were withdrawn at annual rates of less than 2 per cent in 2023–24, and a further 30 per cent at rates of between 2–4 per cent. It speculated that some of this slow drawdown is likely to have been due to the (at the time) inheritance tax benefits of keeping wealth in DC pensions.

March 2026 data from Wealth Intelligence finds that only approximately 31 per cent of its users now model their retirement income around the traditional 4 per cent withdrawal rule, down from 38 per cent six months prior, and a decline of 18 per cent in relative terms.

According to Wealth Intelligence, over 40 per cent of its users now model bespoke withdrawal amounts, often with variable rates across different life stages. "This suggests increasing sophistication in retirement planning, with consumers recognising that a fixed percentage may not reflect the reality of changing expenditure needs through a 30-plus year retirement," it states.

According to Picardo, while the 4 per cent rule remains a useful rule of thumb to ensure funds aren't depleted too soon, "the shape of drawdown is very individual, depending on overall finances and personal circumstances".

"Withdrawing tax-free cash is a popular move perhaps, but many retirees wisely choose to withdraw less in the early years of retirement, to keep their money growing for longer, reflecting a natural caution about running out of money, the uncertainty about the future cost of living and rising longevity," she says.

## Thinking of 'U'

People slowly withdrawing funds at the

start of their retirement would go against the assumption that people will draw down more of their pension during the early, 'active' years of their retirement, and then withdrawing smaller amounts as they age, until their withdrawal increase during older retirement to fund any healthcare requirements they may have.

According to Llewellyn, the 'U-shape' model is helpful for long-term scheme planning. She notes that higher spending in the early years of retirement is commonplace, particularly when members access lump sums. This spending then settles or falls over time. Then, later in life, costs can rise again (often sharply) for those who need care, such as care home fees or more specialist support like nursing or dementia care.

However, "the reality of our members' spending patterns is often more nuanced than this", she cautions. "The shift from DB to DC, longer working lives and longer life expectancies all have a direct impact on how our members spend in retirement."

Picardo agrees that the idea that spending follows a neat 'U-shaped' pattern "tends to be more theory than reality".

"While some retirees may spend

more in the earlier, more active years and less in mid-retirement, spending patterns are highly individual. Factors like health, housing, family support and lifestyle choices mean retirement income tends to be managed far more flexibly than a simple model would suggest," she explains.

### "The evidence suggests a widening gap between industry expectations and member behaviour"

Research from Aviva and Age UK last year found that most mid-retirees actually experience a steady decline in expenditure. More than two in five (41 per cent) respondents said they spend less in mid-retirement than when they first retired and only a small proportion expect major increases later.

IFS research from 2022 found that the average spending of recent retirees with higher-than-average incomes increased through their 60s and 70s. For instance, the research showed that among those born between 1939 and 1943, households

with above-average incomes increased their annual spending (per person) between the ages of 67 and 75 by 7 per cent, or £1,200, after accounting for inflation. This was driven in large part by increasing spending on holidays, and declined only once people were into their 80s.

Meanwhile, those with lower incomes saw their spending remain broadly flat as they moved through retirement.

According to Aviva Wealth and Advice MD, Michele Golunska: "With just one in seven likely to face very high care costs, the traditional U-shape does not reflect reality for most households. While this might be the case for most people, the uncertainty as to whether care costs might be incurred means there's still a need to plan potential U-shaped spending"

As People's Partnership proposition director, Kirsty Ross notes, "retirement is not linear – spending and income needs in retirement can be very varied".

"Some people will spend a great deal when they first retire and then must pay a lot for care at the end of their lives.

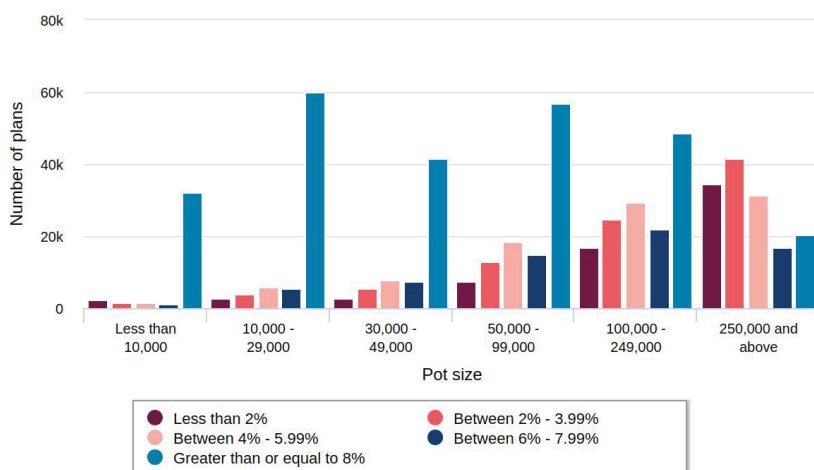
"Others will have more evenly spaced consumption throughout later life, and for others, significant life events, such as health or bereavement, will radically change their household finances. So, while the 'U-shaped' pattern is recognised, it is certainly not what all savers will experience," she says.

Scottish Widows retirement director, Carolyn Jones, notes that "relatively few people appear to be taking a steady, regular income from their pension pot" and are instead cashing in at the point of access or making ad hoc withdrawals over time, "often alongside income from the state pension or a defined benefit scheme".

This, he says, explains why commonly quoted rules of thumb, "do not reflect how many people actually use their savings in practice".

Regular withdrawal rates by pot size in 2024/25

Source: FCA retirement income data



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