The two-chapter retirement

A new framework for understanding and guiding retiree decision making.

Allianz Retire+

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About this paper

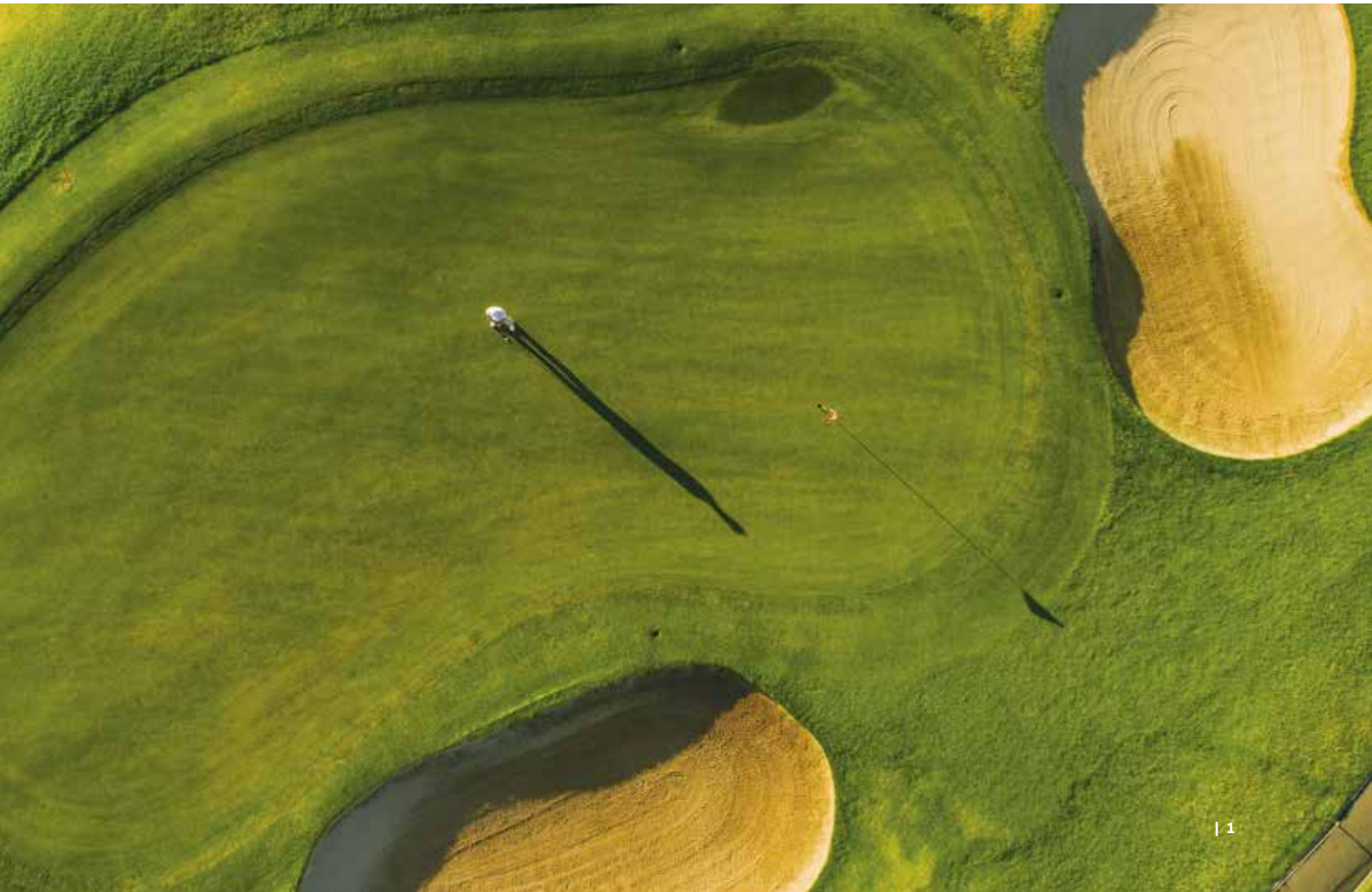
'The Two-Chapter Retirement' brings together a wide body of evidence spanning behavioural research, Australian and global retirement studies, economic data and adviser practice insights. Rather than treating these sources in isolation, the paper synthesises them into a single, coherent framework that reflects how retirees actually think, feel and make decisions.

It introduces the Two-Chapter Retirement framework, which highlights how many retirees experience their journey in two distinct phases: an active, aspirational early chapter they can clearly imagine, and a later, more uncertain chapter associated with caution, fear and complexity.

By exploring behavioural biases, spending patterns and decision inertia, the paper moves beyond observation to application, equipping advisers with practical ways to structure conversations, prioritise decisions and build genuine client confidence across both chapters of retirement.

Who this paper is for

Financial advisers helping clients navigate retirement income decisions where confidence, flexibility and long-term security intersect.



Executive Summary

Many retirees can afford a comfortable retirement—yet hesitate to spend, delay decisions or default to caution. This hesitation is rarely driven by a lack of savings. Instead, it reflects a confidence problem rooted in how retirees think about the future.

The 'Two-Chapter Retirement' framework explains this behaviour. Retirees do not experience retirement as one continuous journey, but as two psychologically distinct chapters—one they can clearly imagine, and one they cannot.

Chapter One
(the retirement clients can see)

Typically covers the first 10–15 years after work, when clients can vividly imagine travel, lifestyle and experiences, and are most receptive to advice that supports spending, flexibility and access to capital.

Chapter Two
(the retirement clients cannot see)

Lies further into the future and is associated with uncertainty around health, longevity and loss of independence, leading to defensive decision-making and reluctance to commit capital.

Evidence across major Australian research shows the behavioural consequences of this two-chapter mindset: retirement spending declines over time rather than remaining stable, many retirees default to minimum drawdowns, and system complexity drives widespread decision inertia.

A consistent preference for flexibility over commitment helps explain the low adoption of strategies perceived as hard-to-unwind, even when they materially improve long-term outcomes.

The practical implication for advisers is clear: confidence is not the outcome of good retirement planning—it is the prerequisite. Advisers who front-load key decisions, build confidence early, and use income layering ('commitment diversification') to balance certainty with flexibility are better positioned to help clients enjoy the retirement they can see without fearing the one they cannot.

The emerging risk to retirement outcomes

For many Australians, the greatest emerging threat to retirement outcomes is no longer market volatility or inadequate savings, but a hesitancy to make the decisions retirement requires.

These patterns are not theoretical. Through our ongoing engagement with advisers in Australia, we see first-hand the behavioural tensions, hesitations and decision bottlenecks clients bring into advice conversations as they approach and enter retirement.

These same patterns have played out consistently across decades of retirement planning experience for Allianz in the United States, where advisers and product providers have navigated similar trade-offs between confidence, flexibility and security at far greater scale. Across both markets, one insight is consistent: when essential future income is not clearly secured, confidence in present-day decisions remains fragile, regardless of portfolio size.

Increasing system complexity and behavioural biases are leaving many otherwise well-resourced retirees reluctant to spend, commit capital or implement strategies that could improve both their financial and emotional security.

Recent Australian research[1] has reinforced how this persistent decision paralysis among retirees is creating a gap between the retirement they have the financial capacity to achieve, and the retirement they feel confident to live.

While traditional retirement income planning focuses on sustaining target income levels, processes alone cannot resolve the deeply held concerns that lead many retirees to live an overly cautious and constrained retirement. **To build genuine confidence, advisers must recognise that clients are not just managing finances; they are managing uncertainty about the future.**

In practice, this tension manifests as a 'two-chapter' view of retirement: an initial 10–15-year period of active, healthy, 'golden years' that clients can readily envision and plan for, followed by a later, more uncertain period characterised by anxiety about health, longevity and financial needs.

Recognising this two-chapter mindset is essential because it shapes how clients respond to advice, perceive risk and evaluate strategies from the outset. Viewing retirement planning through this lens allows advisers to better support clients as they balance the desire to live well today with the need to remain secure tomorrow.

To build genuine confidence, advisers must recognise that clients are not just managing finances; they are managing uncertainty about the future.

How retirees actually think about the future

Advisers are often taught to think about retirement spending in phases. Clients, however, do not think this way.

The often-quoted work by Michael Stein—author of The Prosperous Retirement—which describes 'go-go', 'slow-go' and 'no-go' phases, may be helpful for modelling spending patterns, but it is less useful for understanding how clients actually make decisions.

Rather than segmenting retirement into multiple spending stages, most clients think about the future in just two parts: the near-term future they can vividly imagine, and the distant future they struggle to picture and therefore associate with fear and uncertainty.

A recent Australian qualitative study[3] brought this two-chapter mindset to life. Surveying a wide cross section of pre-retirees and retirees, Accenture researchers observed:

'Whatever the journey towards retirement, almost all see their retirement in two distinct chapters'.

Those chapters were described as:

- Chapter One – 'Maximising enjoyment of retirement'; and
- Chapter Two – 'Slowing down and getting by'.

The two-chapter mindset is also grounded in a wider body of research[4] – including work by the Conexus Institute – into the effect of behavioural and decision biases on retirement planning. These include myopia, present bias, and hyperbolic discounting, which limit our ability to effectively plan for the long term, and see us apply an irrationally large discount to the value of future benefits.

Some researchers[5] have even suggested we think in terms of two selves – our present self and our future self– going as far as to suggest our distant future self 'feels like a stranger', and saving is like a choice between spending money today or 'giving it to a stranger, years from now'. This separation between our two selves makes future planning decisions difficult, which often sees another decision bias – procrastination (decision inertia) – come to the fore.

CHAPTER ONE

The retirement clients **can see** (ages 60-75)

Because this chapter feels tangible and controllable, decision-making is driven by aspirations rather than constraints. Clients think in terms of possibilities: travel, major purchases, time with family. Financial discussions are framed around enabling lifestyle, with clients more receptive to strategies that support spending, flexibility and access to capital.

However, even in this chapter, opposing forces are at work.

The desire to 'do it all now' while health and independence are intact conflicts with an awareness that the future is uncertain. As a result, many clients hold back from experiences they aspire to — not because they cannot afford them, but because they lack confidence that the future has been sufficiently secured.

In this chapter, confidence acts as a facilitator of action. When clients feel assured that their long-term needs have been considered, they are more willing to spend and commit. Without that assurance, even financially well-prepared clients may hesitate, prioritising optionality over enjoyment.

CHAPTER TWO

The retirement clients **cannot see** (ages 75+)

In contrast to Chapter One, the later years of retirement feel opaque and emotionally distant at the planning stage.

Clients worry about longevity, health costs, market downturns and loss of independence, but struggle to estimate the magnitude or timing of these risks. Accenture research found that clients often avoid engaging deeply with these questions altogether.

Because this chapter cannot be clearly imagined, it is processed primarily through fear-based heuristics rather than detailed planning. This leads to defensive behaviour: preserving capital, avoiding irreversible commitments and favouring flexibility even when this comes at the expense of stronger long-term outcomes.

In this chapter, confidence plays a different but equally critical role. Rather than enabling action, it provides reassurance. When reassurance about later life is absent, caution in the early years intensifies — because the future feels unsecured.

> Clients seek strategies that reduce uncertainty and ensure that essential needs will be met regardless of how circumstances unfold.

Retirement planning fails when it treats confidence as an outcome of planning, rather than the prerequisite for every major decision.

Behavioural outcomes of the two-chapter mindset

Across spending patterns, decision timing and product preferences, a consistent behavioural pattern emerges: retirees trade long-term confidence for short-term optionality.

Retirement spending is not steady or smooth

Analysis of data from Australia's HILDA survey[6] and the ABS has shown that total household expenditure typically declines across retirement rather than remaining stable, likely reflecting a combination of reduced physical capability, increasing risk aversion and precautionary behaviour in the face of uncertain future needs

Various experts have sought to quantify the extent of this 'front loading' of spending.

One researcher[7] estimated that the median retired couple's expenditure falls by more than one-third (36.7%) as they move from their peak spending years in early retirement (65 to 69 years of age) and into older age (85 years and beyond). The decline in expenditure for couples was found to be relatively stable in the early years of retirement at about 6% to 8% across each four-year age band, but then rapidly accelerates once retirees pass 80 years of age.

Decision inertia and default bias contribute to frugality and loss

2025 research by the Grattan Institute[8] linked the cognitively overwhelming complexity of retirement with decision inertia and default bias. In their 'Simpler Super' study, 80% of respondents said they found retirement planning complicated, with half (40%) of those saying it was very or extremely complicated.

That same study also found around half of all retirees with account-based pensions draw only the legislated minimum, of whom around one in five falsely believe this figure to be what the government has recommended. A clear reluctance to spend was observed, driven by uncertainty about the future, health concerns, and fear of outliving savings, ultimately resulting in more than 40% of pensioners being net savers.

A Super Members Council (SMC) study[9] from 2025 similarly observed 'decision paralysis' across various stages of the retirement journey. One example they cited was the prevalence of people leaving their superannuation in accumulation accounts even after retirement. While noting that for some this may have been an active decision, their conclusion was that for the estimated 700,000 retirees in such accounts, this was likely explained by complexity-driven decision inertia. They estimated the cost of this inertia to be up to $136,000 per retiree[10].

Flexibility and liquidity preference

Both the Grattan and SMC studies also highlight a consistent behavioural preference for flexibility over commitment in retirement decision-making.

Grattan notes that strategies designed to mitigate longevity risk often require retirees to surrender liquidity and control, creating trade-offs many are reluctant to accept, while SMC similarly identifies low understanding and concerns about locking away capital as key barriers to lifetime income products. Together, these findings reinforce the idea that a reluctance to commit is not merely caution, but a deep emotional preference for optionality.

The irreversibility barrier

Decisions about the distant future become especially difficult when they are perceived as hard to reverse. Retirement planning often involves multiple commitments of this nature, from housing and capital allocation to income structuring and family support.

Within the two-chapter context, enabling clients to enjoy the early years of retirement requires making them confident that the uncertain later years are secured. Yet the strategies advisers typically use to provide that security – such as establishing a layer of guaranteed future income – can often require a degree of commitment that clients fear may lead to regret or loss of control.

Research[11] into long-term financial decision-making shows that when decisions are perceived as hard to reverse, retirees apply an 'irrevocability aversion discount' to their benefits. Put simply, the fear of making the wrong permanent decision often outweighs the benefit of making the right one.

The regret aversion bias amplifies this effect. Retirees anticipate the possibility that a decision made today could prove wrong in hindsight, particularly in the face of uncertain longevity, health costs or family circumstance, and therefore delay or dilute commitments that feel permanent.

To the extent that such decisions result in sub-optimal long-term outcomes, irreversibility fears become a risk in their own right, a risk that – along with sequencing, longevity, and other retirement risks – advisers must seek to mitigate.

By ensuring that long-term financial security does not depend on committing all capital to arrangements perceived as hard-to-unwind, income layering reduces the psychological barrier to early action.

Rather than forcing a choice between certainty and control, it allows advisers to establish a durable income floor while retaining optionality for the years ahead. In doing so, it directly addresses the behavioural constraints identified throughout this paper, enabling clients to act with confidence at the outset of retirement while preserving flexibility across both chapters.

From insight to action: advice implications

The two chapter mindset reveals a simple truth: clients want confidence about the future without sacrificing control today. The most effective retirement strategies are therefore those that secure later life needs early, while preserving growth and flexibility in the years clients can see.

Guaranteed income for life: securing the retirement clients cannot see

When the future feels uncertain, caution dominates early retirement. Even well resourced clients hesitate to spend or commit because the second chapter feels opaque and risky.

Action

Use guaranteed income for life to secure later retirement years, so clients feel confident making decisions today.

Practical guidance

- Establish a clear income foundation for essential later life spending (typically the Age Pension and guaranteed lifetime income).
- Position guaranteed income as protection against longevity, market and health risks—not a return strategy.
- Focus conversations on income certainty, not balances or drawdown rates.
- Use client-friendly language: 'This secures the retirement you can't see, so you don't need to second guess today.'

Growth with a safety net: confidence without compromise

Clients approaching retirement still want growth—but only when they feel protected. Without a safety net, growth amplifies anxiety and drives poor timing decisions.

Action

Combine growth assets with guaranteed income to allow clients to stay invested with confidence.

Practical guidance

- Position guaranteed income as the safety net that enables growth to do its job.
- Protect clients from severe market shocks while retaining participation in upside.
- Reinforce that planning early does not mean giving up growth.

Flexible access to capital: retaining control if circumstances change

A strong preference for flexibility reflects fear of irreversible decisions and regret. The belief that capital is 'locked away' often delays action.

Action

Treat guaranteed income as one layer within a broader strategy—not a replacement for liquidity.

Practical guidance

- Ensure clients retain access to capital if circumstances change.
- Avoid unnecessary lock up, particularly where Age Pension uplift is unlikely.
- Assess options carefully—flexibility varies and there is no one-size-fits-all solution.

A new paradigm for retirement planning

Viewed through the two-chapter lens, retirement planning is not about choosing between certainty and flexibility, but about structuring both in a way that aligns with how clients actually think about the future.

Advisers who secure essential future income early, preserve flexibility where it matters, and frame retirement as a confidence-building process are better positioned to help clients enjoy the retirement they can see, without fearing the retirement they cannot.

The most effective retirement frameworks will therefore be those that:

- **secure essential lifetime needs early**
- **preserve flexibility for evolving priorities;**
- **build confidence across both chapters simultaneously.**

When these conditions are met, clients are better able to enjoy the retirement they can see without fearing the retirement they cannot.

About Allianz Retire+

Allianz Retire+ is committed to simplifying retirement planning by providing reliable solutions that offer guaranteed income, protection, flexibility and control. We empower retirees to achieve financial security and peace of mind.

Get in touch

We're here to help you deliver an independent and rewarding retirement for your clients. Reach out to your Allianz Retire+ representative or contact us at:

p. 1300 421 060

e. enquiries@allianzretireplus.com.au

w. allianzretireplus.com.au

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