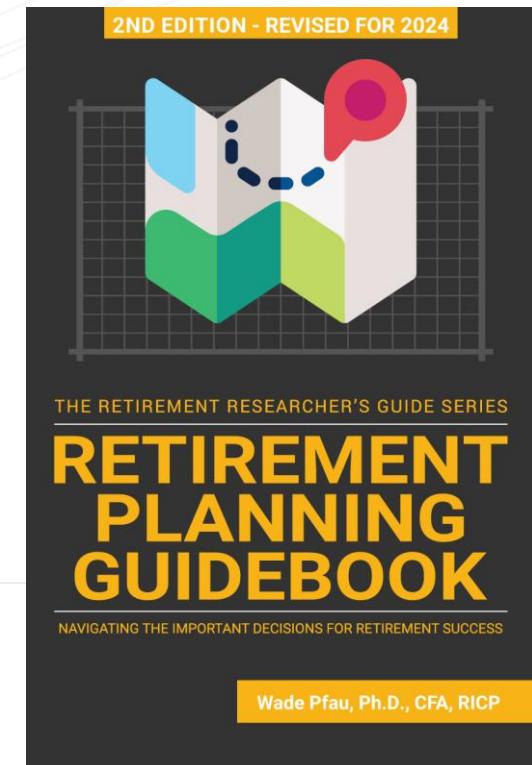
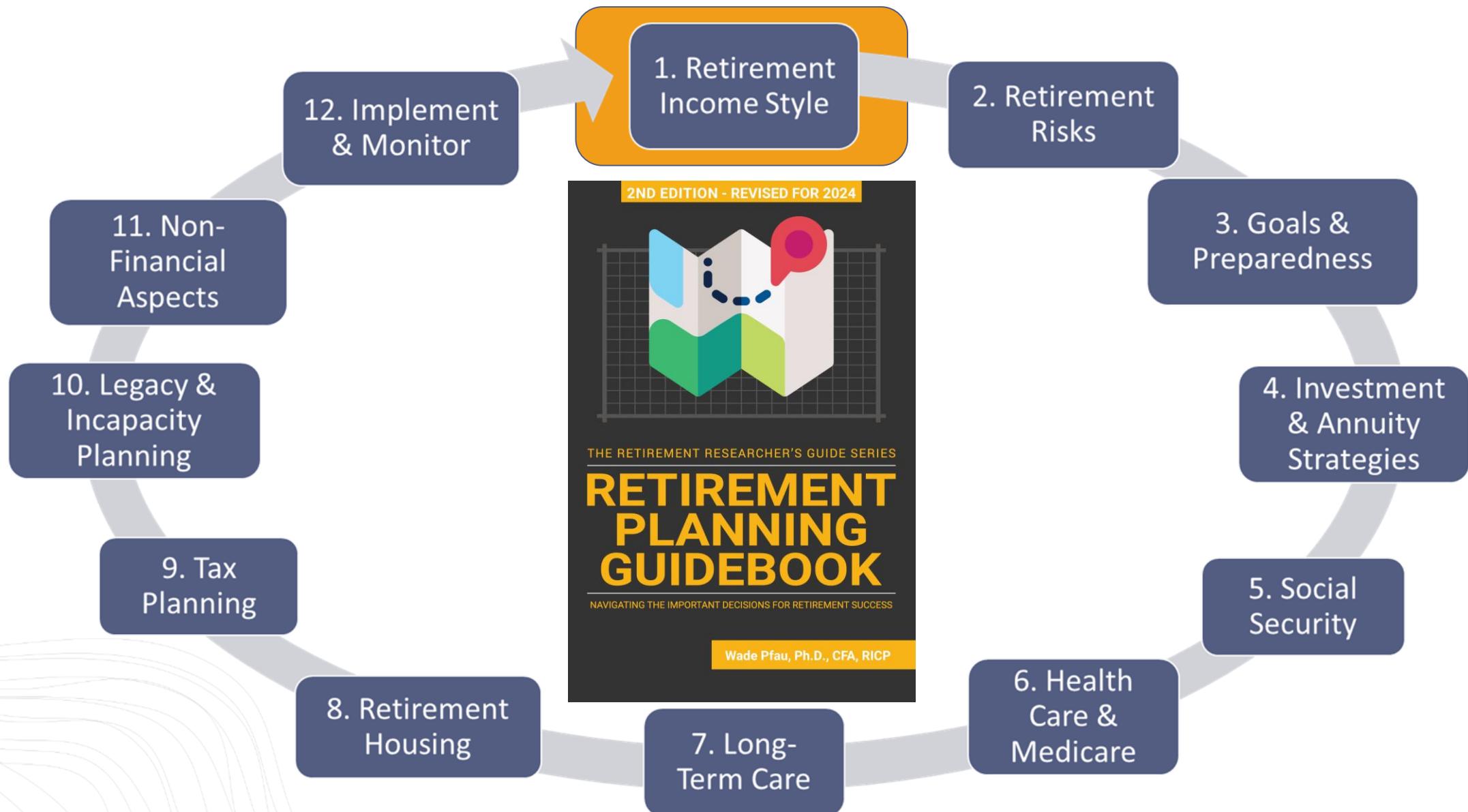


# Determining Your Retirement Income Style



**Presented by:** Wade Pfau, Ph.D., CFA, RICP  
[www.RisaProfile.com](http://www.RisaProfile.com)





Retirement Planning Guidebook:  
[Books2Read.com/Retirement](https://Books2Read.com/Retirement)

# Agenda

- New Risks when Investing for Retirement
- Viable Strategies for Managing Retirement Risk
- Risk Premium & Risk Pooling
- Identifying Retirement Income Styles
- Matching Styles to Retirement Strategies



# New Retirement Risks



# Investing for Distribution in **Retirement** is Different from Accumulation



# Retirement Requires a Different Approach

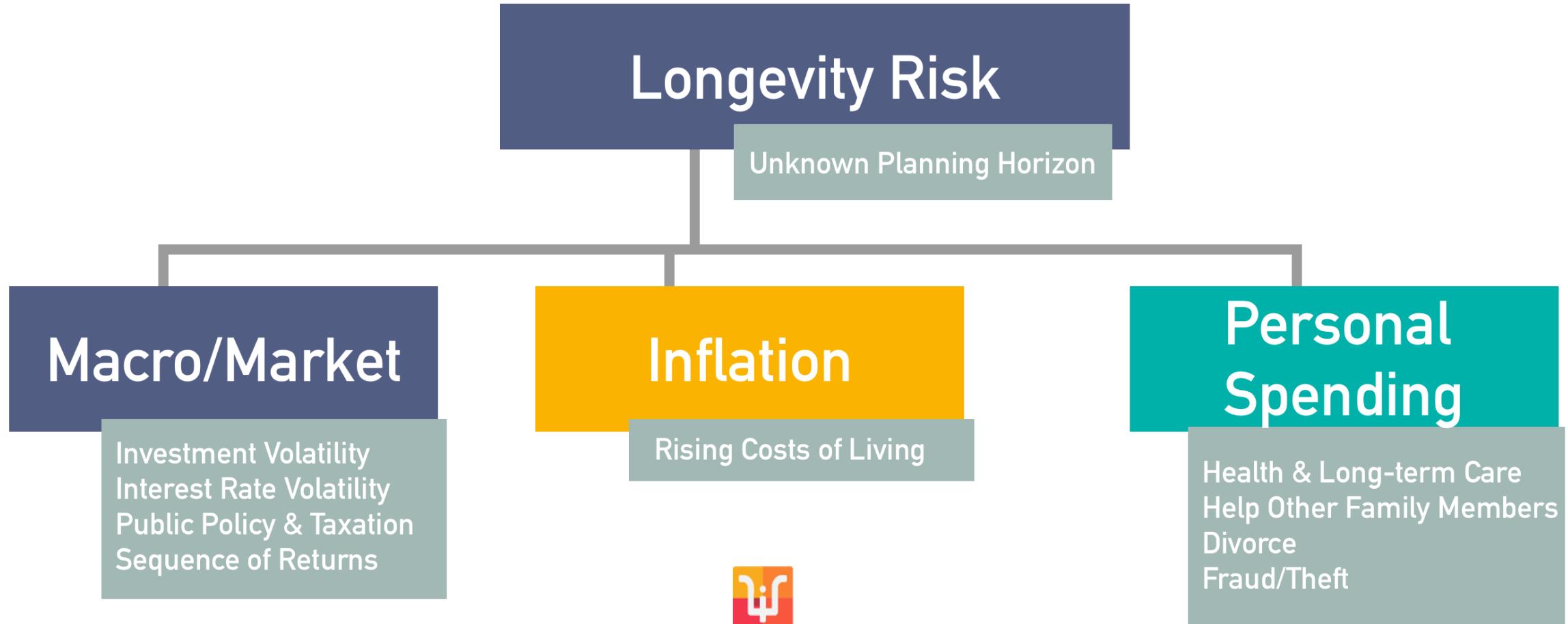


**Harry Markowitz**

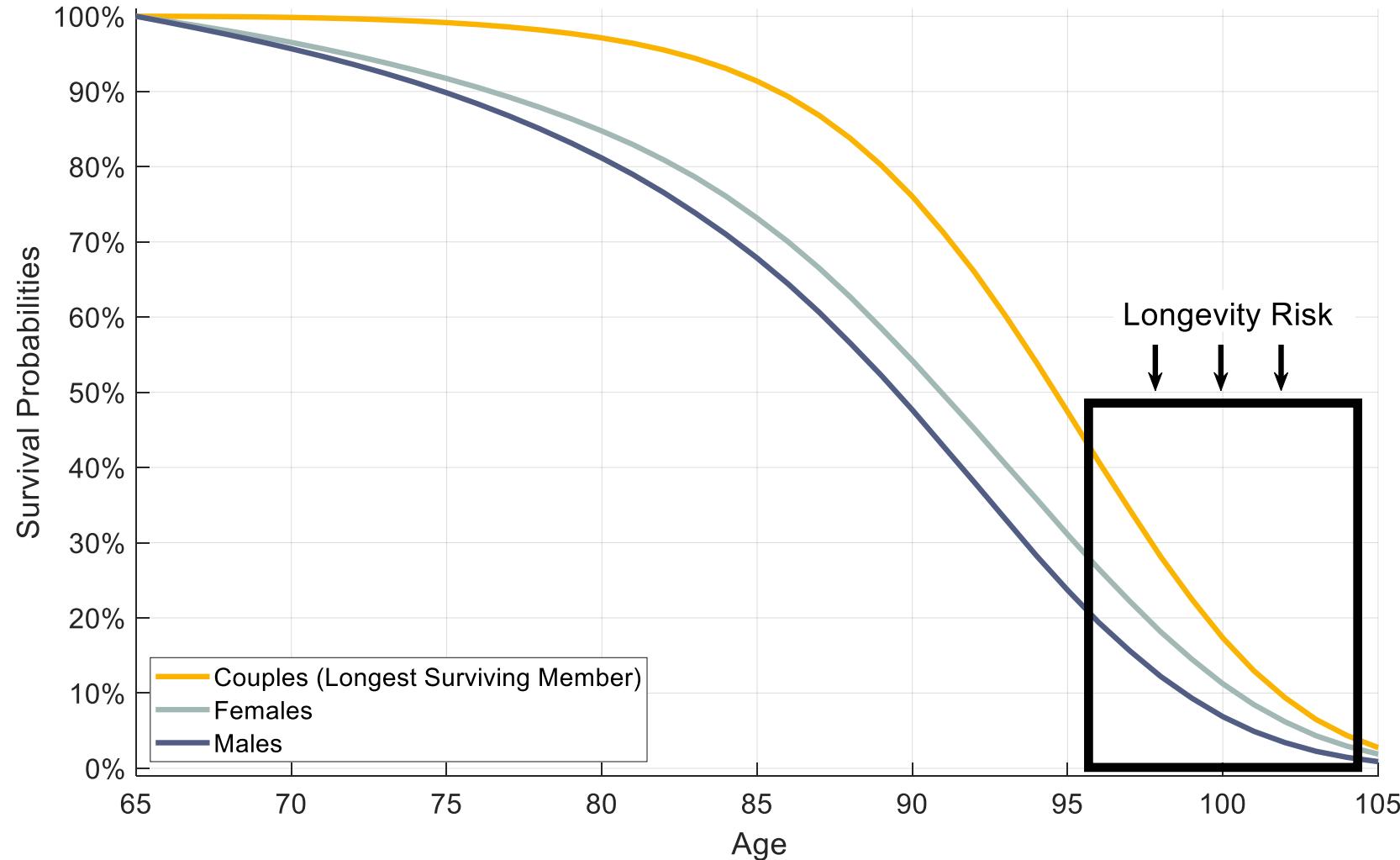
...there were clear differences in the central features of investment for institutions and investment for individuals, that these differences suggest differences in desirable research methodology..."



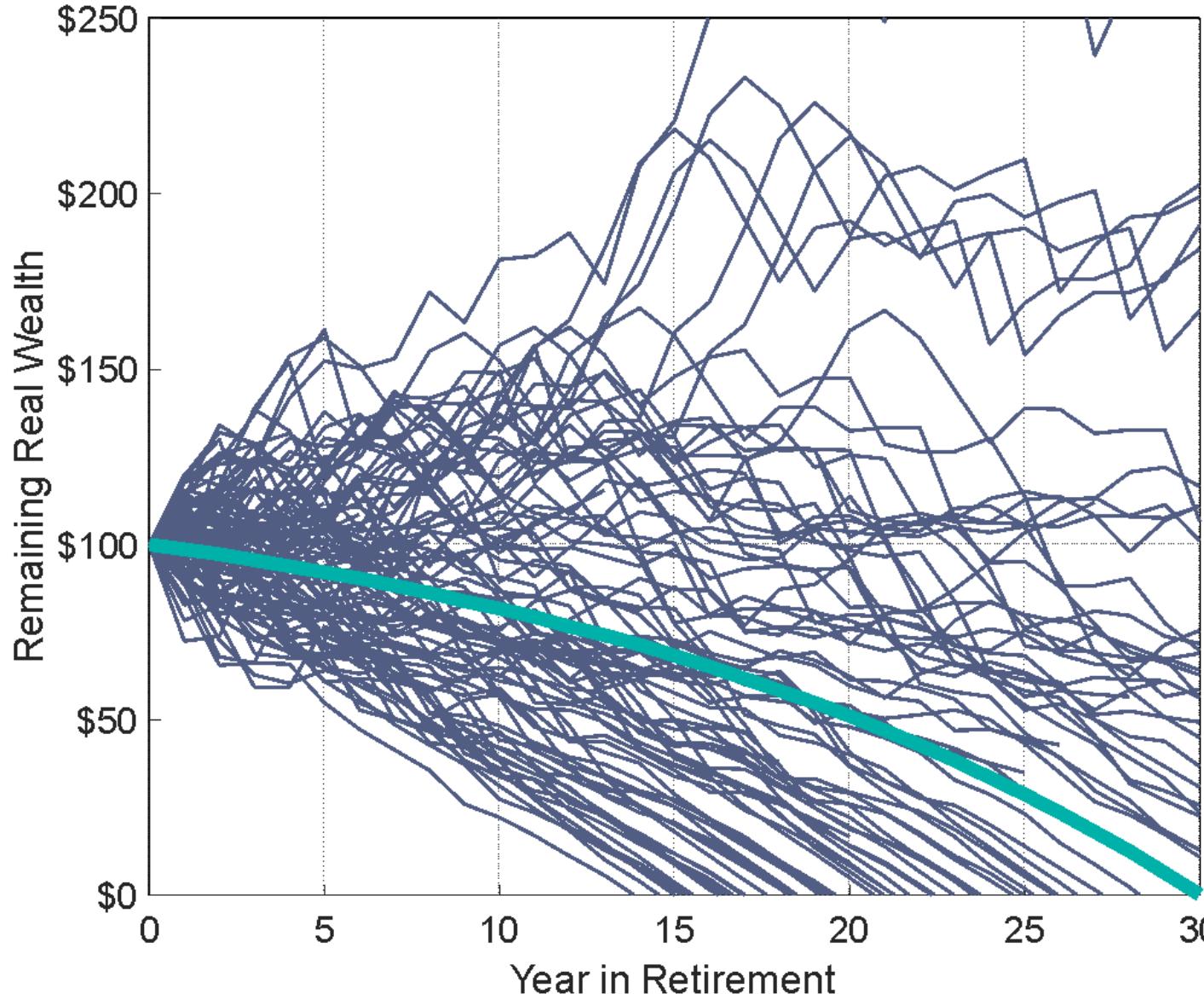
# Key Retirement Risks



# Longevity Risk



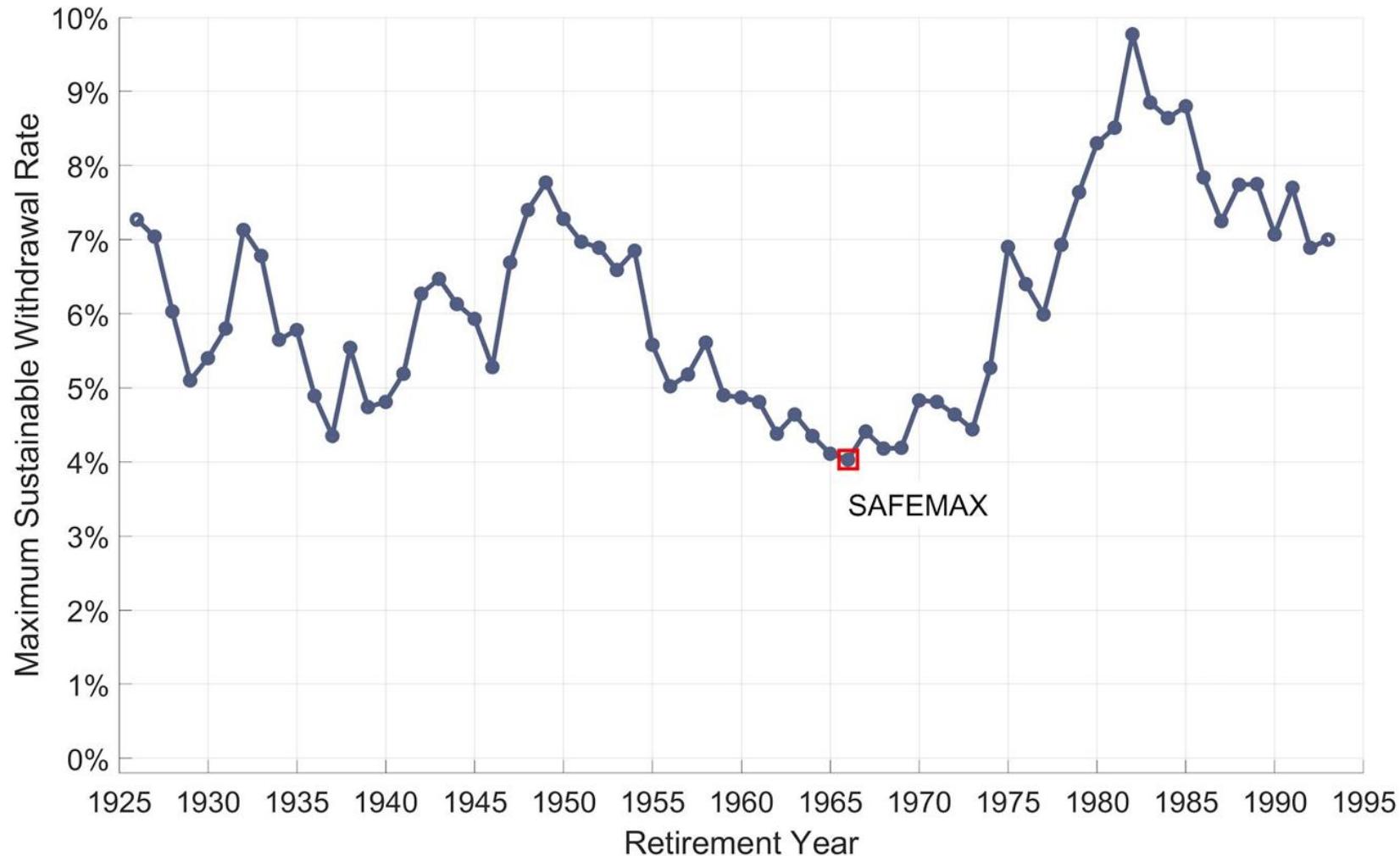
# Market Risk: Fixed vs. Random Returns



## Wealth Glidepath Over a 30-Year Retirement

- For a 6.3% Initial Withdrawal Rate, 50/50 Asset Allocation, Inflation Adjustments
- Using SBBI Data, 1926-2022, S&P 500 and Intermediate Term Government Bonds

# Basis for the 4% Rule



Maximum Sustainable Withdrawal Rates

For 50/50 Asset Allocation, 30-Year Retirement, Inflation Adjustments, No Fees  
Using SBBI Data, 1926-2022, S&P 500 and Intermediate Term Government Bonds

## Maximum Sustainable Withdrawal Rates for Retirees

Global Returns Dataset, 1900-2020

Asset Allocation:  
50% Stocks & 50% Bills

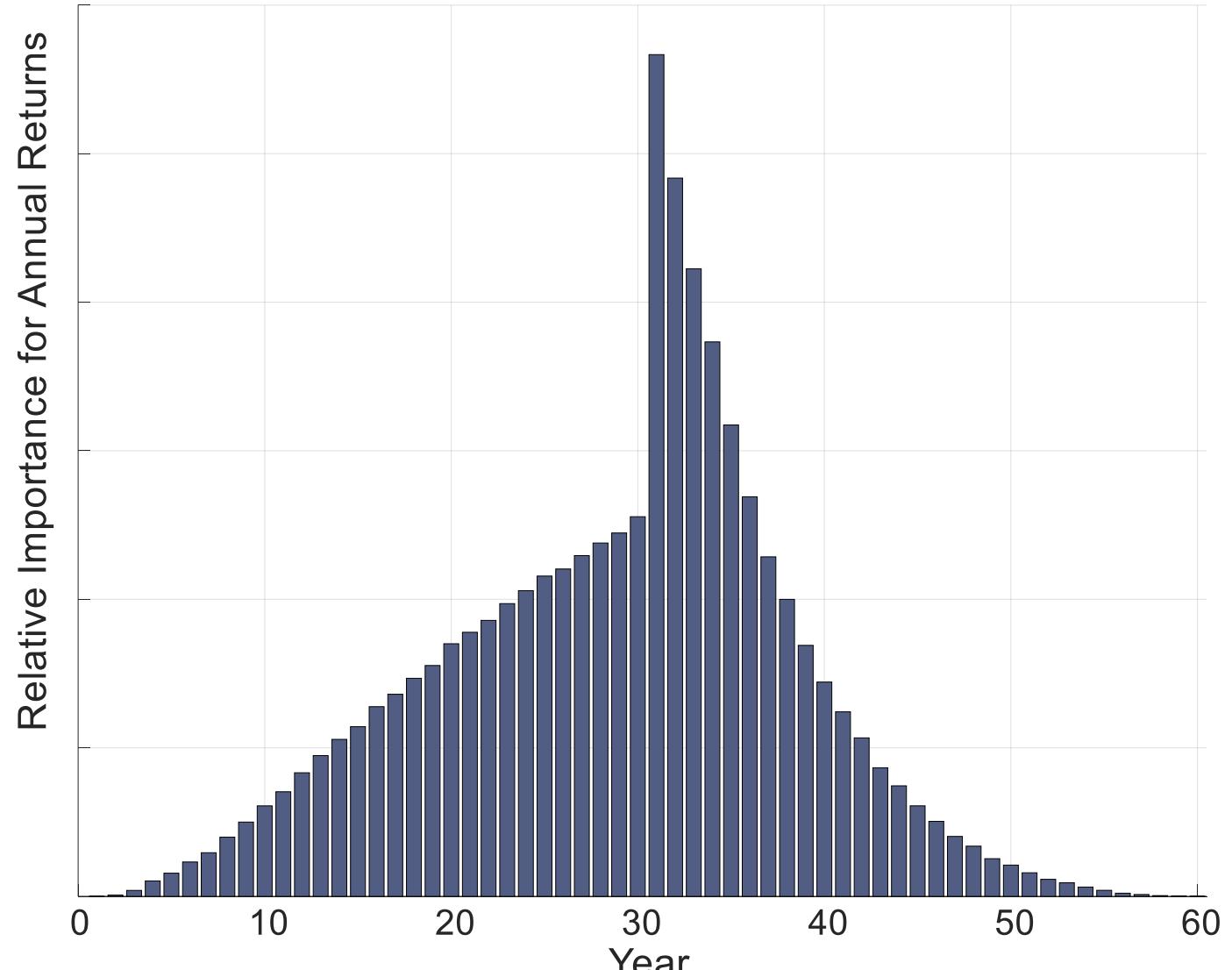
*Note: Assumptions include a thirty-year retirement duration, no investment fees, constant inflation-adjusted withdrawal amounts, and annual rebalancing.*

	SAFEMAX	Success Rate for 4% Rule	Withdrawal Rate for 90% Success
<b>Canada</b>	4.0%	99%	4.6%
<b>United States</b>	3.9%	98%	4.4%
<b>New Zealand</b>	3.8%	92%	4.1%
<b>Denmark</b>	3.7%	93%	4.3%
<b>World Portfolio</b>	3.4%	86%	3.9%
<b>United Kingdom</b>	3.3%	78%	3.8%
<b>Australia</b>	3.2%	78%	3.5%
<b>Switzerland</b>	3.1%	70%	3.4%
<b>Sweden</b>	3.1%	87%	3.9%
<b>South Africa</b>	3.0%	86%	3.9%
<b>Norway</b>	3.0%	58%	3.1%
<b>Netherlands</b>	2.8%	80%	3.8%
<b>Ireland</b>	2.8%	67%	3.2%
<b>Spain</b>	2.2%	52%	2.6%
<b>Portugal</b>	1.5%	57%	1.9%
<b>Belgium</b>	1.5%	54%	2.0%
<b>Finland</b>	1.3%	62%	1.8%
<b>Germany</b>	1.0%	50%	1.3%
<b>France</b>	0.9%	38%	1.4%
<b>Italy</b>	0.8%	28%	1.1%
<b>Japan</b>	0.3%	61%	0.3%
<b>Austria</b>	0.1%	41%	0.1%
<b>Across Countries</b>		<b>68%</b>	<b>2.8%</b>

# Lifetime Sequence of Returns Risk

50/50 Asset Allocation,  
Inflation-Adjusted Spending  
100,000 Monte Carlo  
Simulations

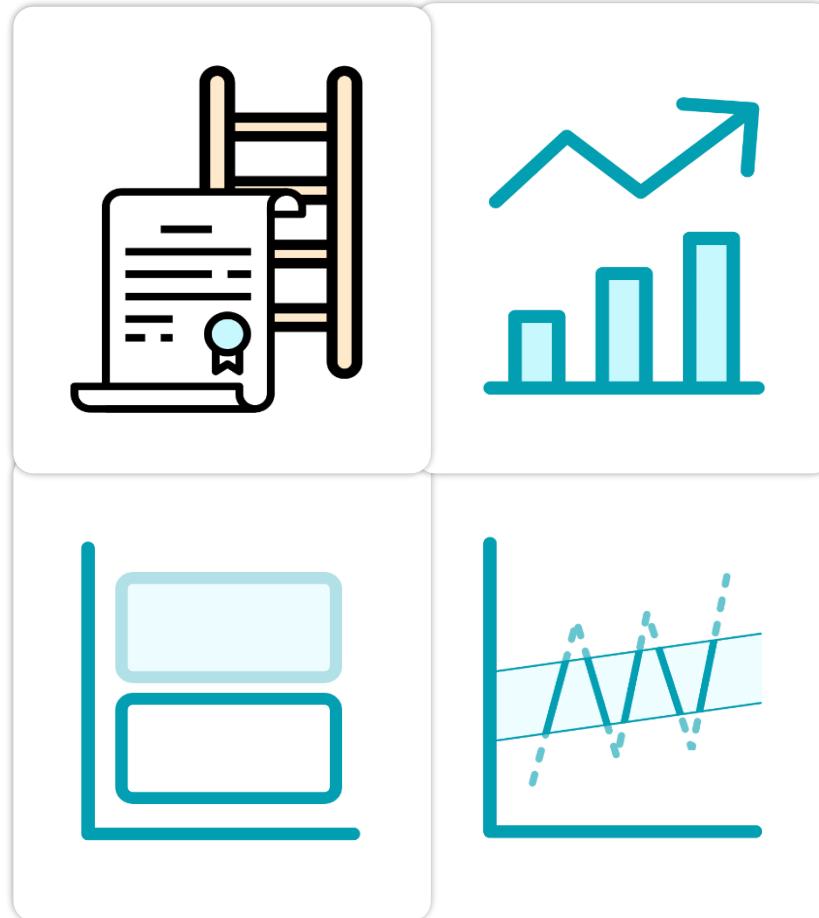
Based on SBBI Data, 1926–2022,  
S&P 500 and Intermediate-Term  
Government Bonds



# Viable Retirement Strategies



**It is still the  
Wild West in terms  
of retirement  
income  
strategies...**



# Retirement Income Strategies

## Total Return Approach



# Retirement Income Strategies

## Time Segmentation



# Retirement Income Strategies

## Income Protection



# Retirement Income Strategies

## Risk Wrap



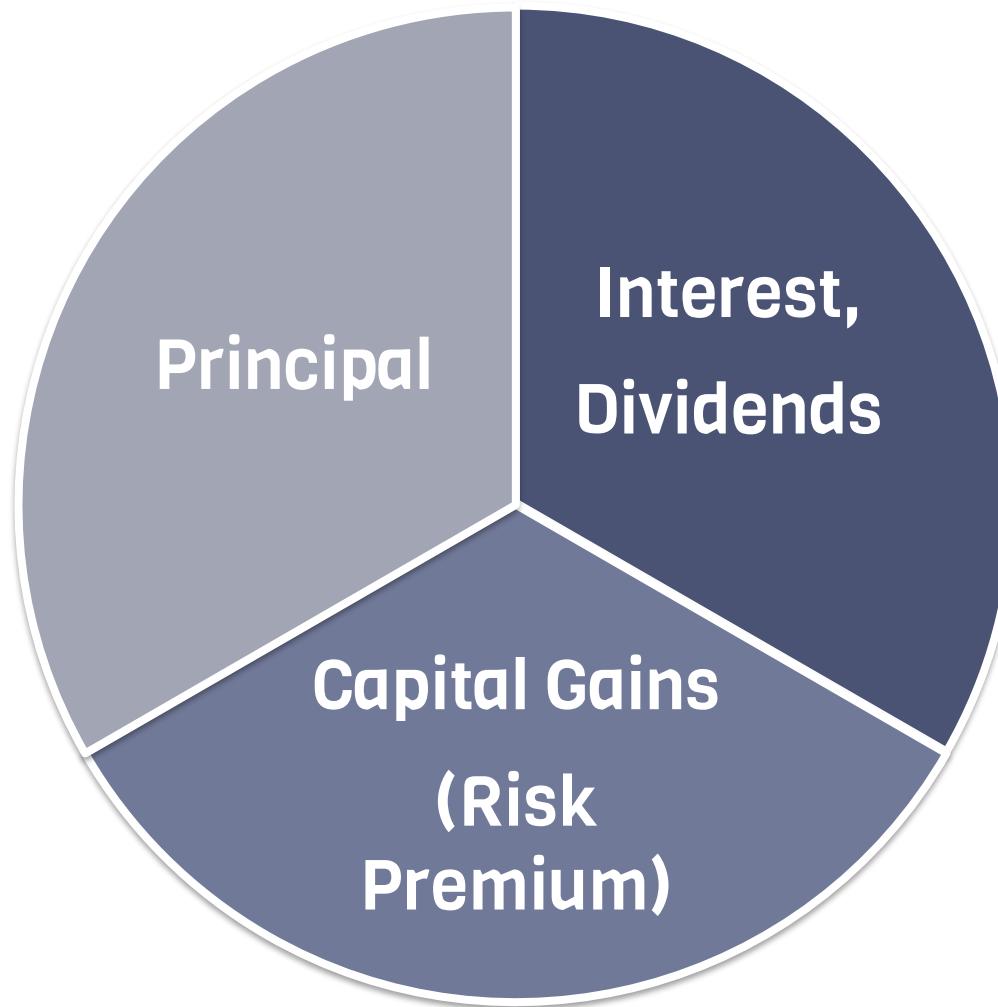
# Risk Premium & Risk Pooling



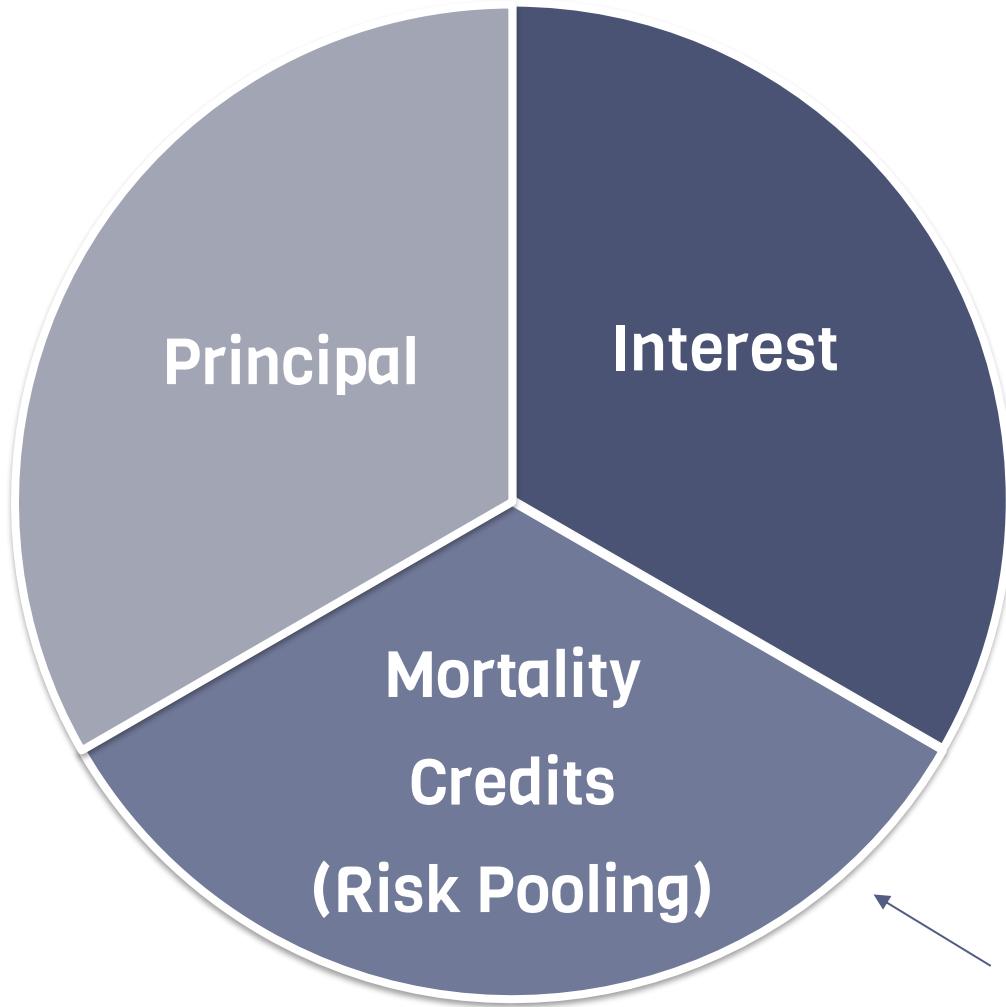
# Different Strategies are **Viable**



# Sources of Investment Spending

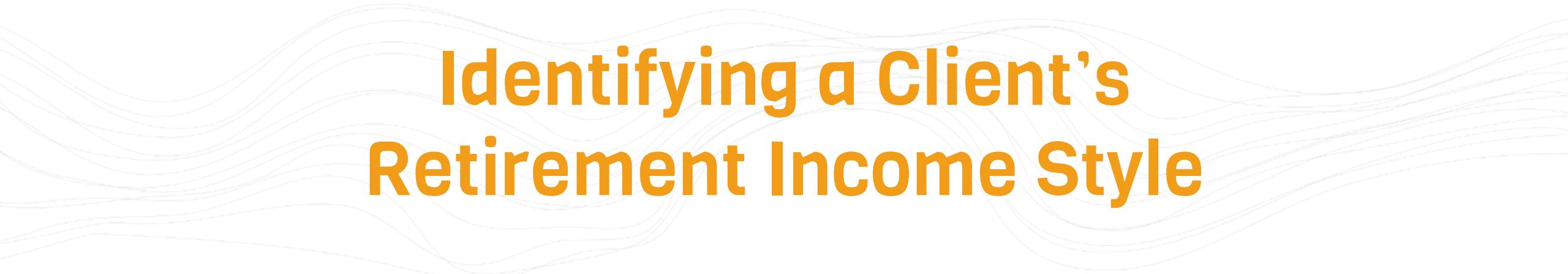


# Sources of Annuity Payments



*Deferred Annuity*  
Risk Premium too

*Survival-Weighted*  
Present Value of Cash Flows



# Identifying a Client's Retirement Income Style





**How do retirees  
choose from the  
possibilities?**



We've lacked  
the tools for  
identifying who  
should use  
which strategies



# RISA Research Design



# Retirement Income Factors

## Primary RISA® Factors

Probability vs. Safety First

Optionality vs. Commitment

Time-Based vs. Perpetuity Income floors

Accumulation vs. Distribution

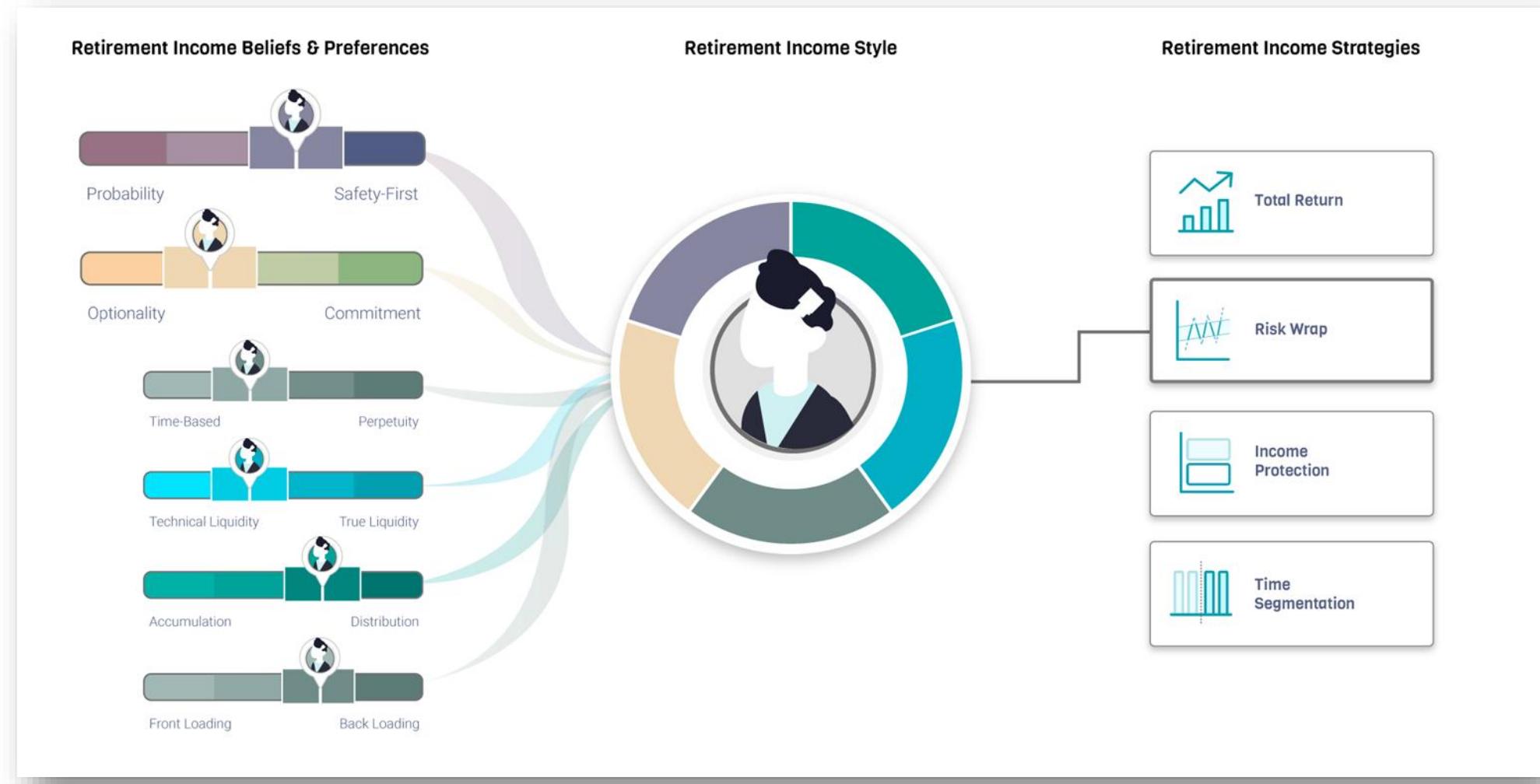
Front-Loading vs. Back-Loading retirement income

True vs. Technical Liquidity

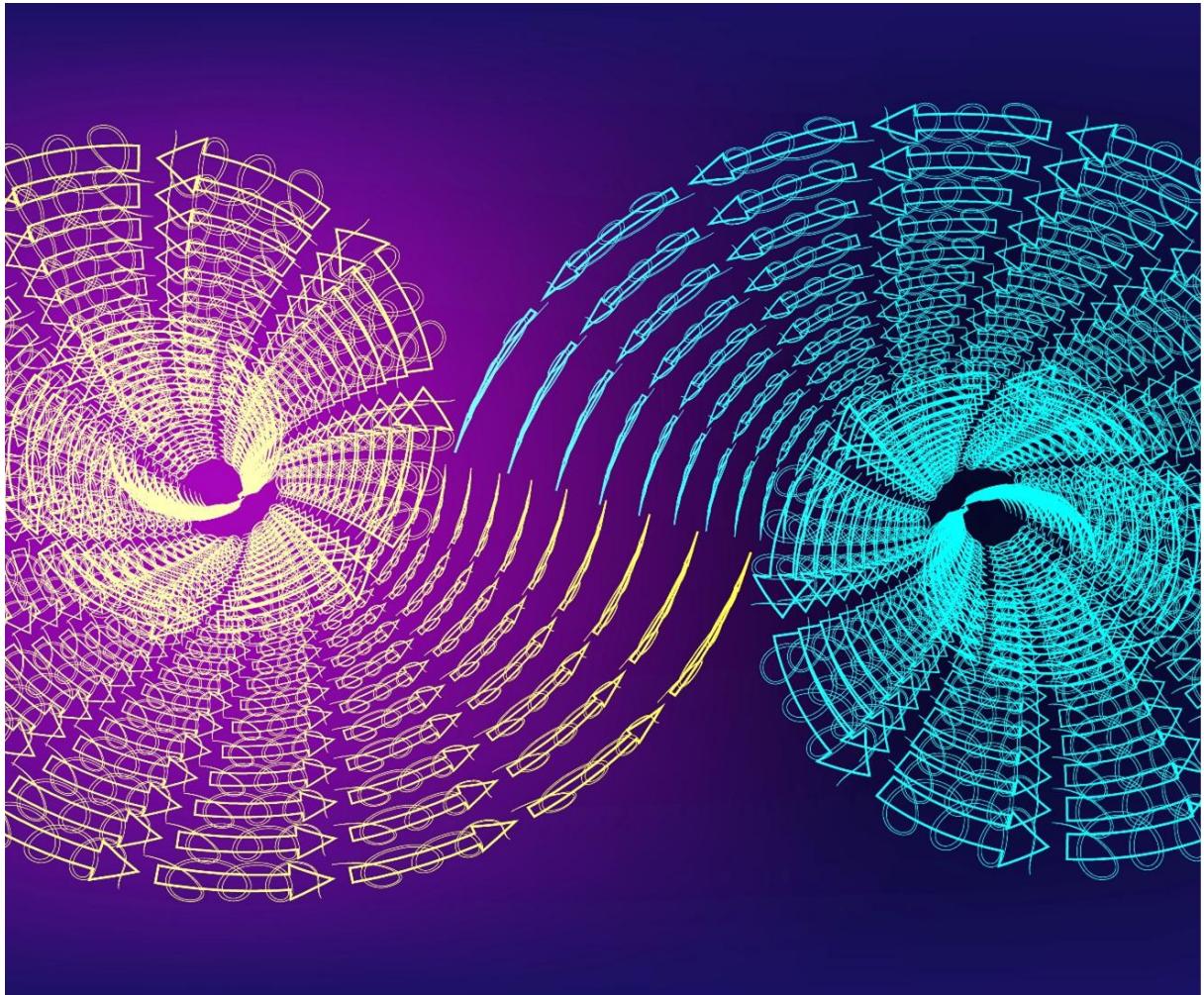
## Secondary RISA® Factors



# Your style leads to specific strategies



# Probability-Based vs Safety-First & Optionality vs Commitment Orientation



# How do you like to draw retirement income?

Probability-Based

0 0 0 0 0

Safety-First

Depend on market growth through the **risk premium** for stocks to outperform bonds

Rely on contractually-driven income for safety relative to unknown market outcomes (individual bonds, or **risk pooling** with annuities)



# How much plan optionality do you prefer?

Optionality

0 0 0 0 0

Commitment

Prefer **flexibility** to keep options open and take advantage of new opportunities

Prefer to **lock-in** a solution that solves a lifetime income need



# Secondary Factors

Help to further  
refine your  
retirement  
income style



# How do you view your reliable income floor?

Time-Based

0 0 0 0 0

Perpetual

Prefer to have reliable income segmented to fixed windows of time

Prefer to have reliable income available on a lifetime basis



# How do you view your reserve assets?

True Liquidity

0 0 0 0 0

Technical Liquidity

Prefer assets earmarked specifically as reserves that are not matched to other goals

View assets as an overall pot to draw from for different expenses; distinct reserves are not needed



# What is your mindset about retirement investing?

Accumulation      0 0 0 0 0      Distribution

Maintain pre-retirement accumulation mindset focused on risk-adjusted returns; emphasize growth over predictable income

Worry less about risk-adjusted returns and more about ensuring your assets can sustainably support spending goals; emphasize predictable income overgrowth



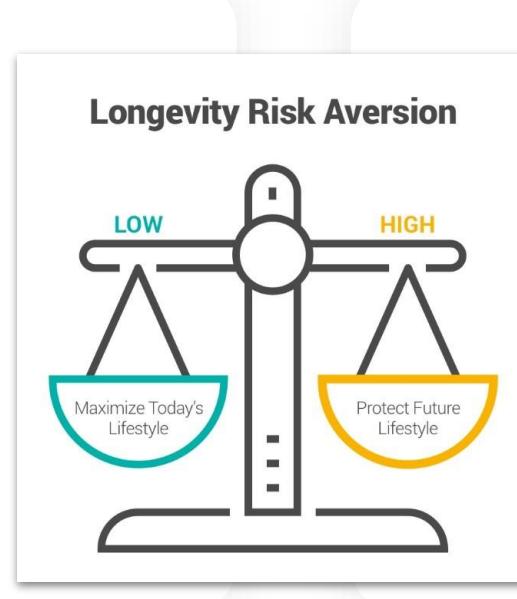
# How do you balance current & future spending?

Front-Load

0 0 0 0 0

Back-Load

Spend more today  
when you are assured  
of life and health



Spend less today to  
better protect future  
lifestyle

# RISA® Matrix

**Safety-First**  
True Liquidity

Distribution  
Perpetual

**Optionality-Oriented**  
Front-Loading

Accumulation  
Time-Based

**Safety-First**  
&  
Optionality

**Probability-Based**  
&  
Optionality

**Safety-First**  
&  
Commitment

**Probability-Based**  
&  
Commitment

**Probability-Based**  
Technical Liquidity

**Commitment-Oriented**  
Back-Loading



# Matching Styles to Strategies



# RISA® Matrix

**Safety-First**  
True Liquidity

Distribution  
Perpetual

**Optionality-Oriented**  
Front-Loading

Accumulation  
Time-Based



**Probability-Based**  
Technical Liquidity

**Commitment-Oriented**  
Back-Loading



# RISA® Retirement Style Distribution

Representative Sample of Americans, (n=10,129)

Optionality-Oriented

16%  
Time  
Segmentation

35%  
Total Return

Safety-First

Probability-Based

36%  
Income  
Protection

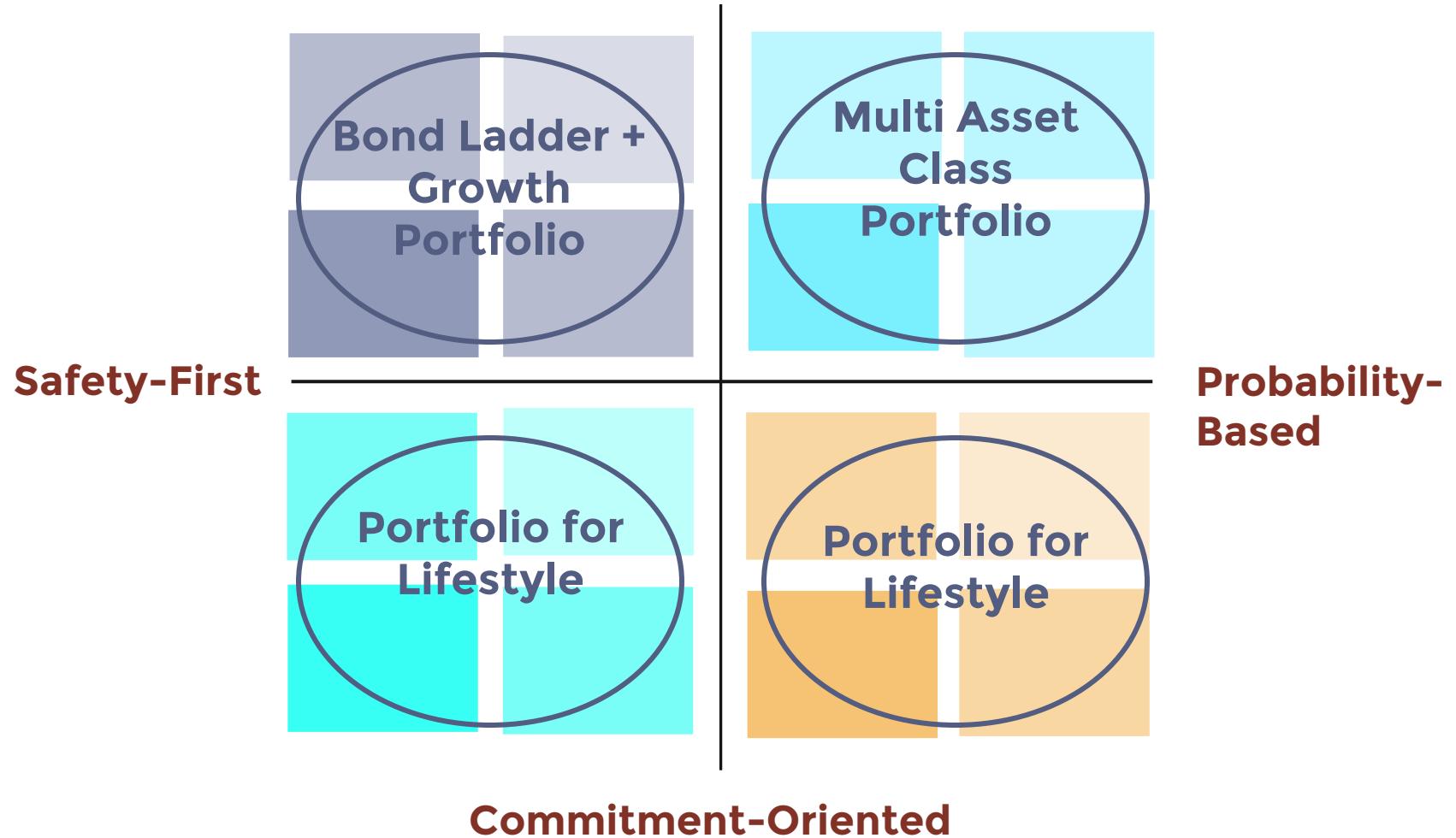
13%  
Risk Wrap

Commitment-Oriented

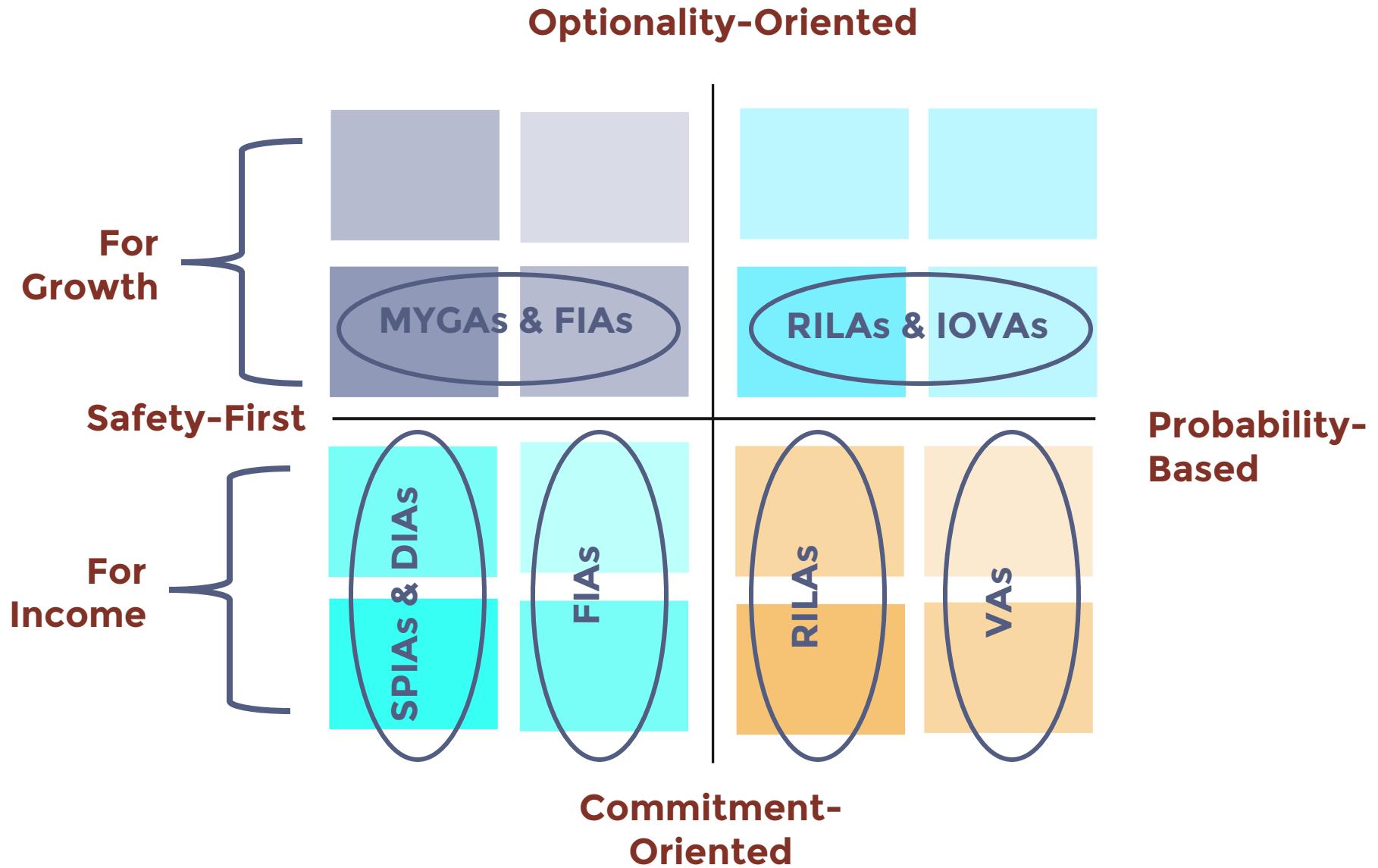


# RISA® Style Matrix – Role for Investments

Optionality-Oriented

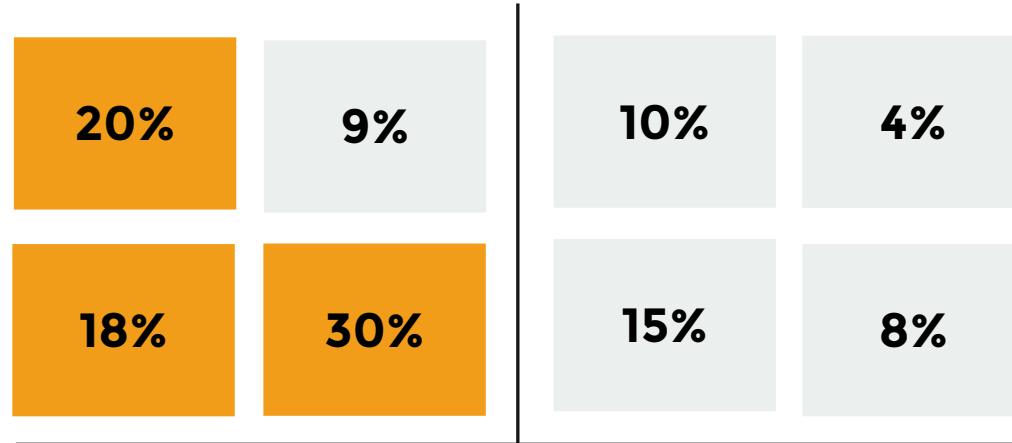


# RISA® Style Matrix – Role for Annuities



# Huge Addressable Gap

Based on position in the RISA Matrix, percentage saying “Yes” that they seriously consider/already use annuities for lifetime income.



**Human Component:**  
Appropriately matched solutions lead to better outcomes



**Business Component:**  
Know when annuity conversations will best resonate.



Annuity Candidates



# How Do Retirement Risks Affect Your Goals?

Longevity

Lifestyle

Legacy

Liquidity

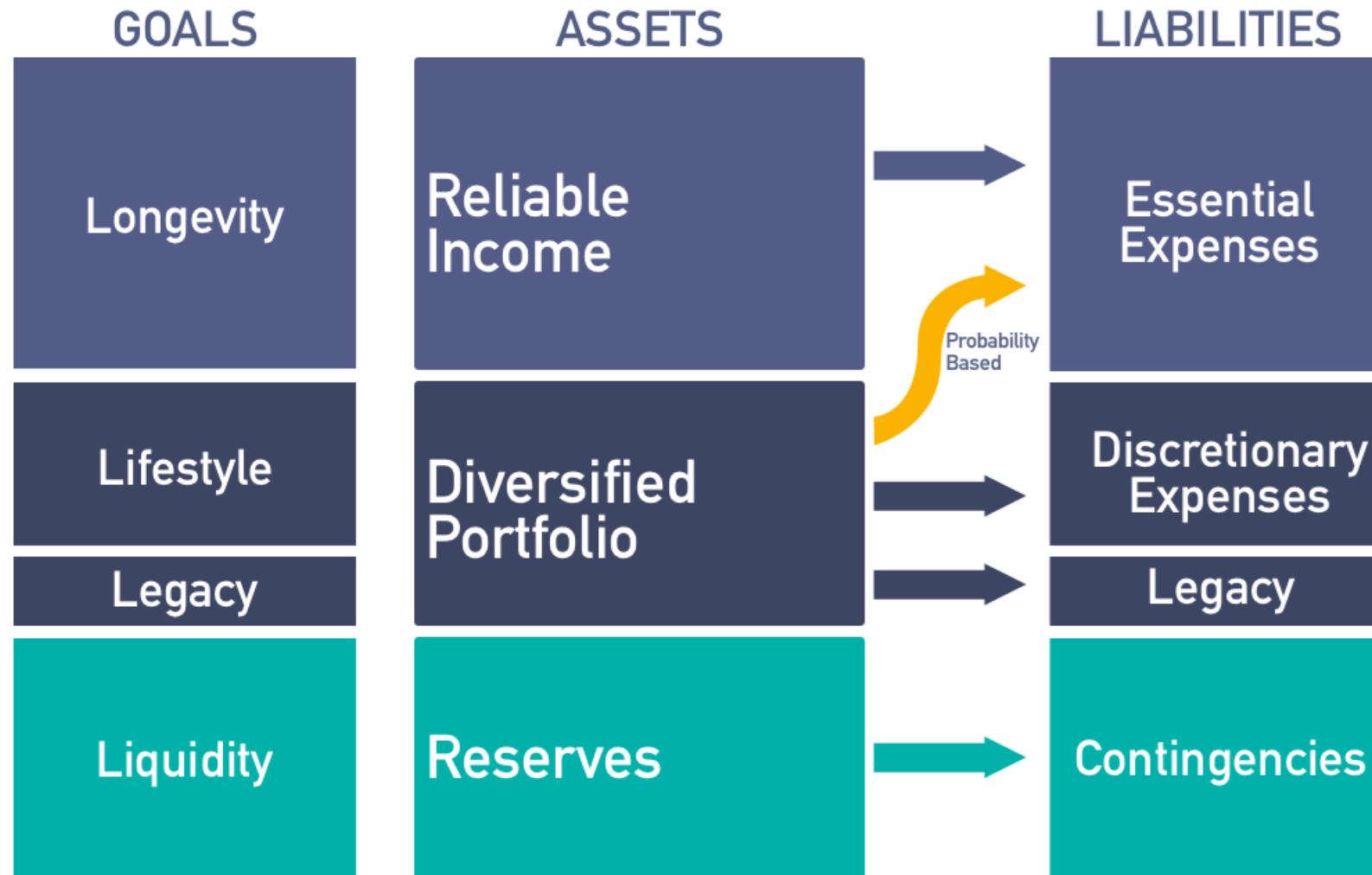


# Retirement Concerns

	Longevity	Liquidity	Lifestyle	Legacy
Probability v Safety-First		+		
Optionality v Commitment	+		-	-
Loss Aversion (Risk Questionnaires)			+	
Net Worth	-	-		
Gender		+		
Marital Status			-	
Age	-	-	-	



# Retirement Income Optimization



# Takeaways

- We need to approach retirement differently from accumulation
- There are multiple viable approaches for retirement income
- The “right” approach for someone depends on their personal style
- RISA factors identify starting point for strategy discussion
- Advisors who can serve multiple styles with a variety of tools are best positioned to serve their clients

# THANK YOU! ANY QUESTIONS?

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[www.RisaProfile.com](http://www.RisaProfile.com)



Take your RISA Assessment:

