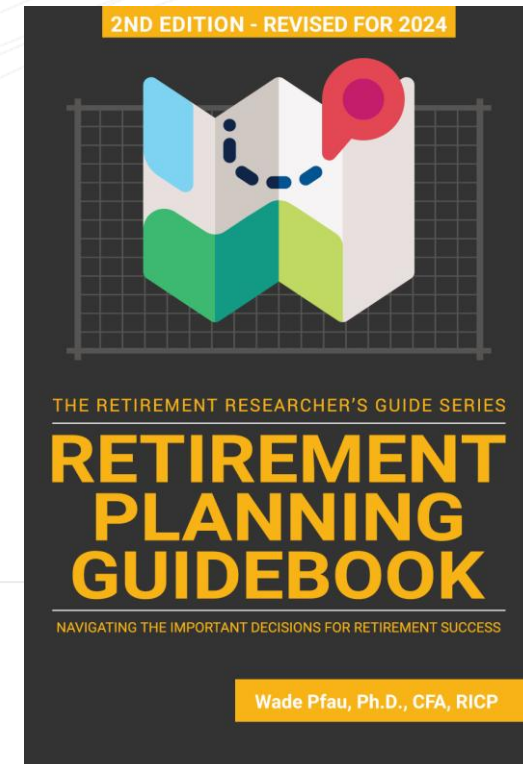
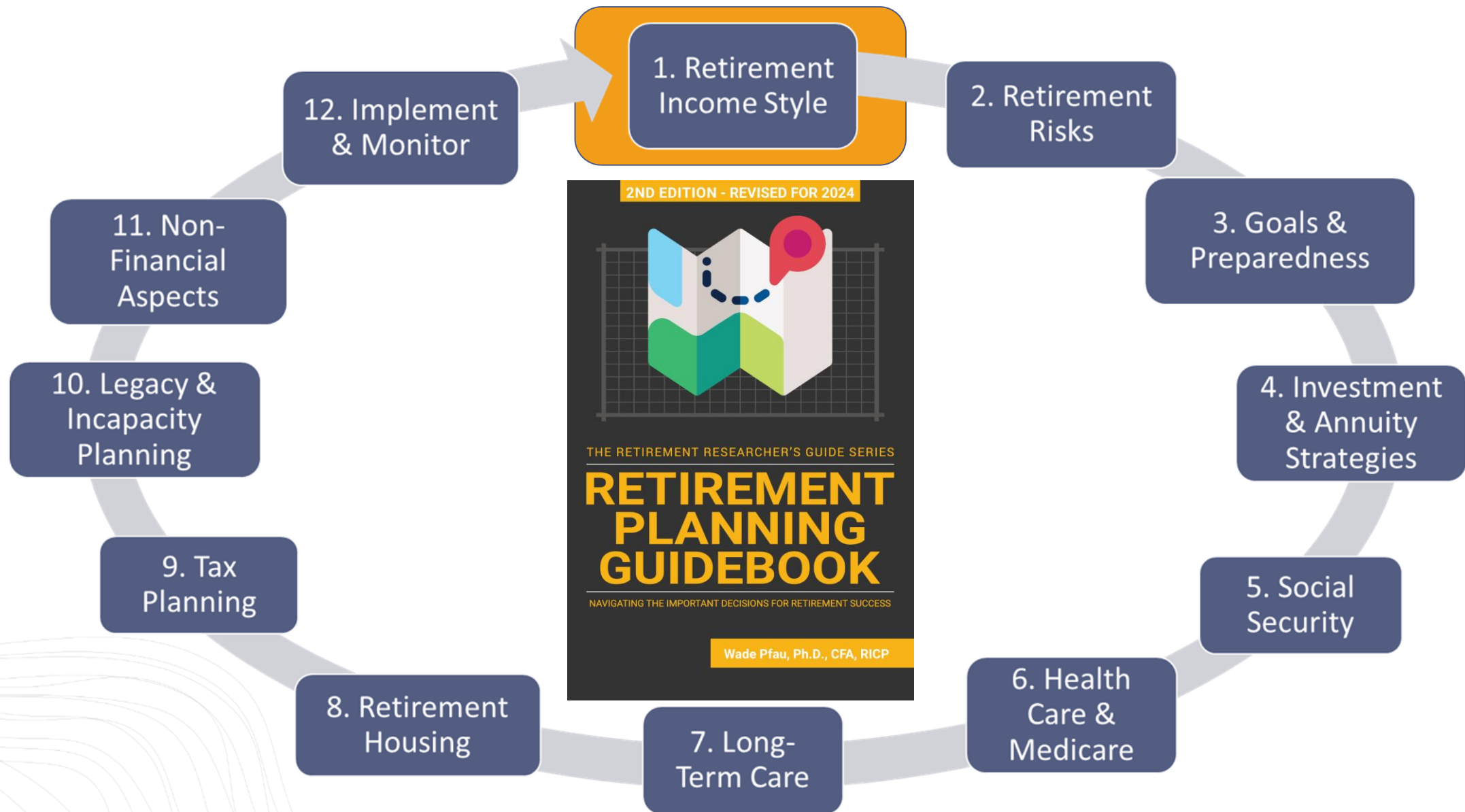


Determining Your Retirement Income Style



Presented by: Wade Pfau, Ph.D., CFA, RICP
www.RisaProfile.com





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

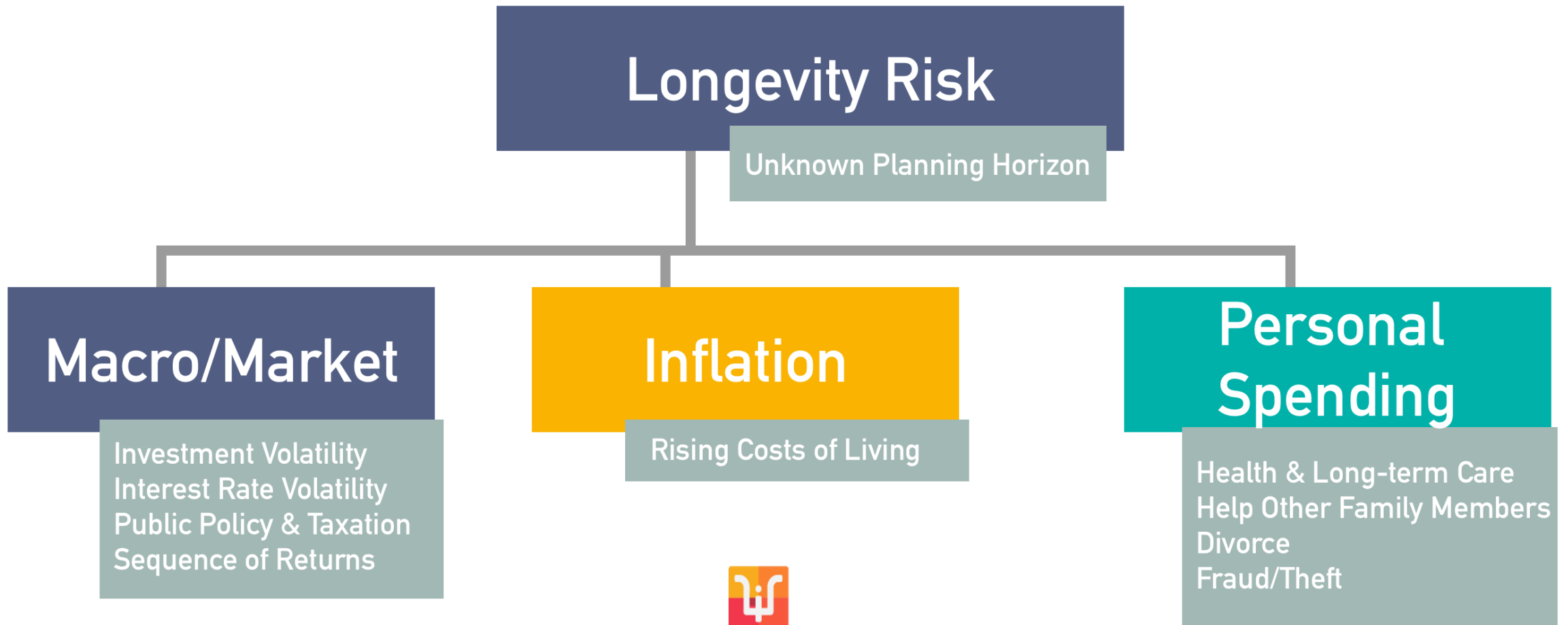


Harry Markowitz

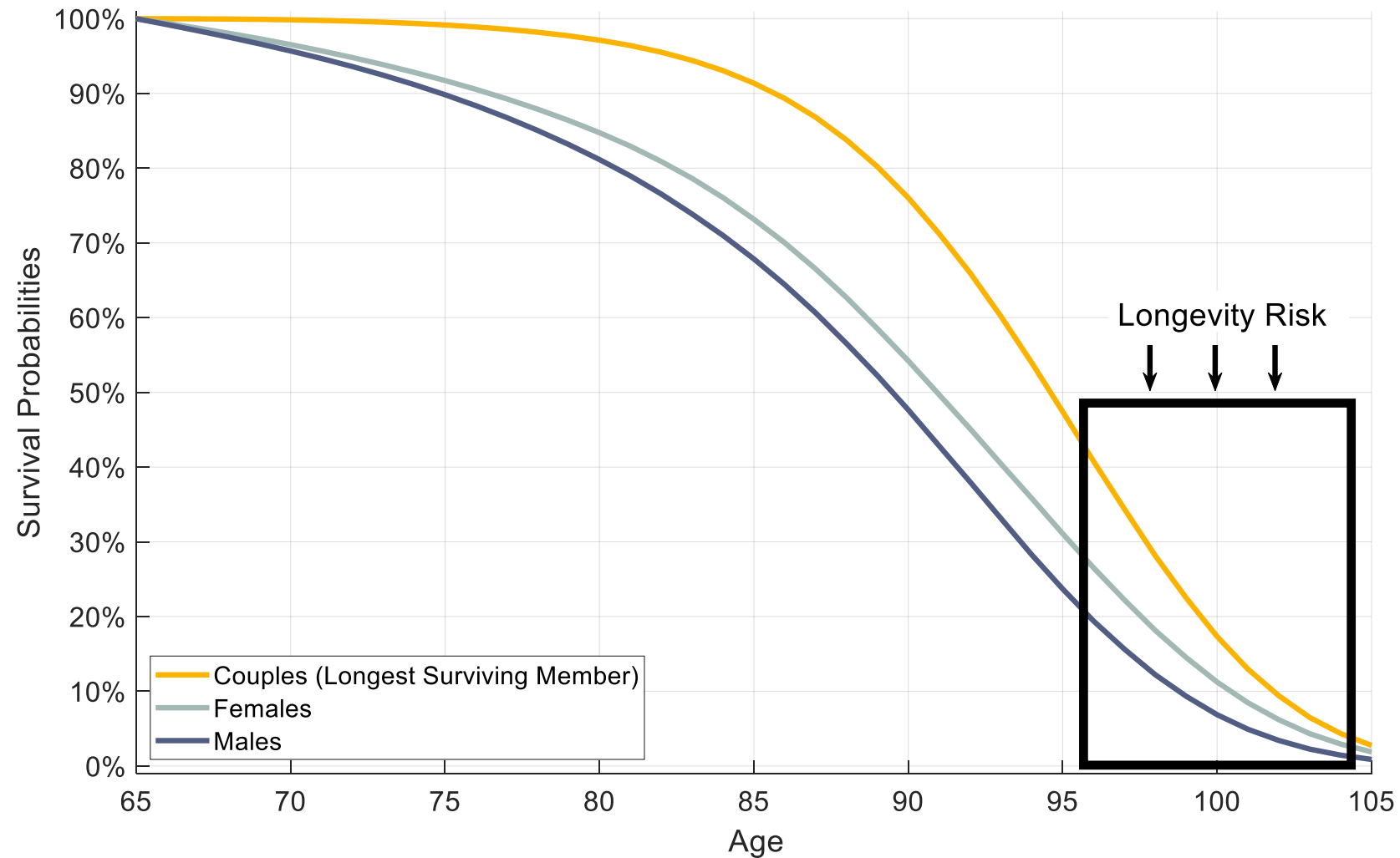
...there were clear differences in the central features of investment for institutions and investment for individuals, that these differences suggest differences in desirable research methodology...”



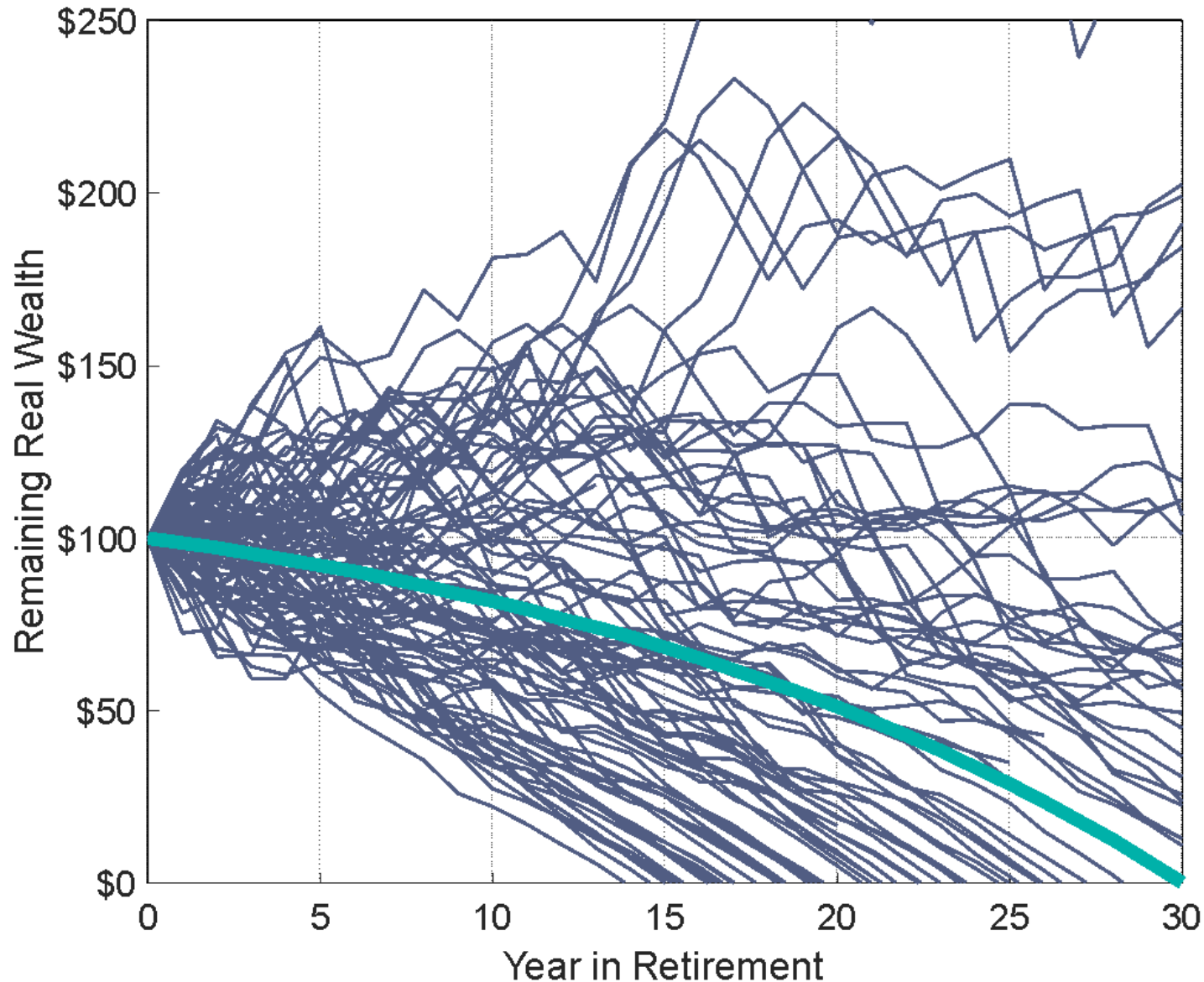
Key Retirement Risks



Longevity Risk



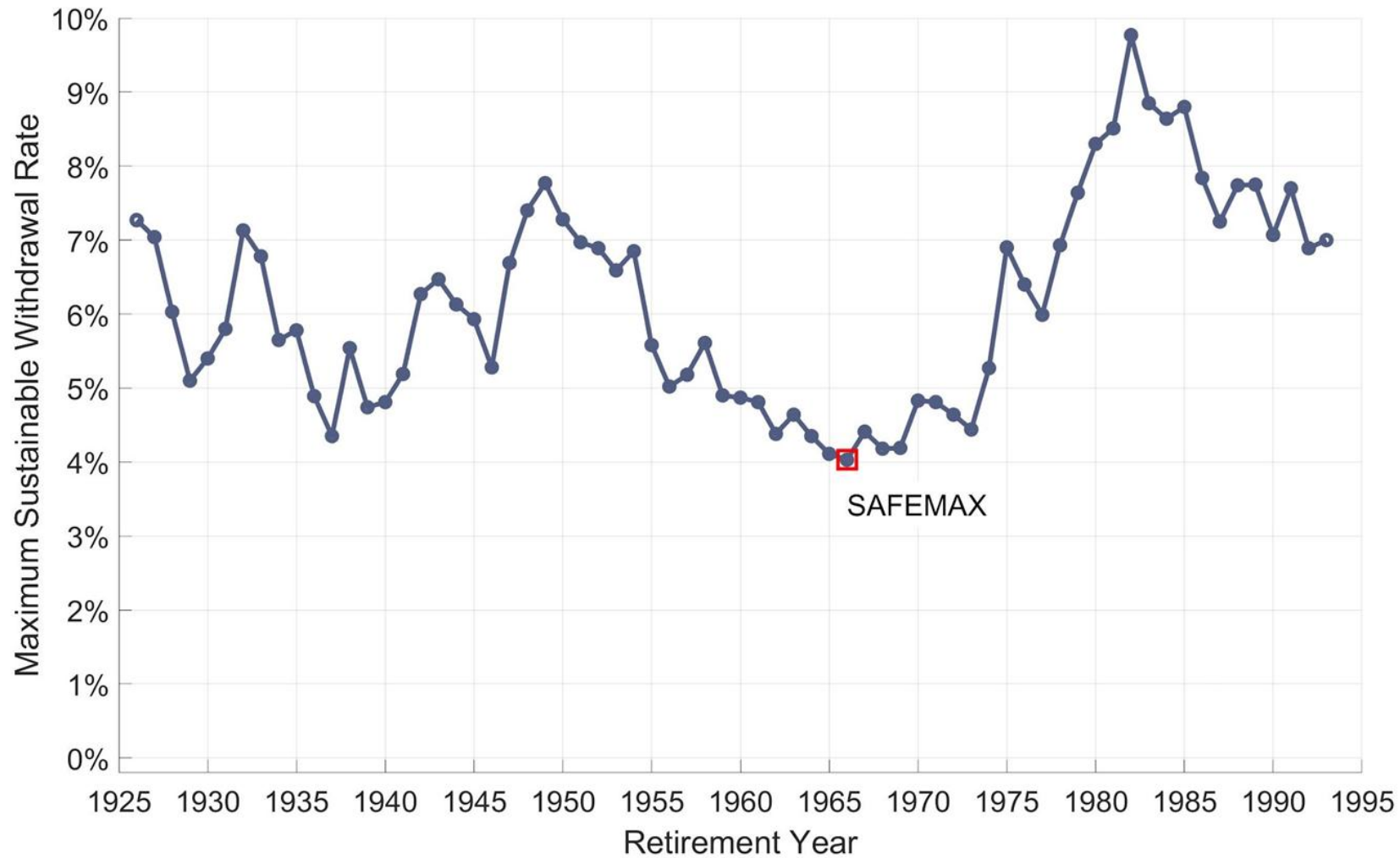
Market Risk: Fixed vs. Random Returns



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

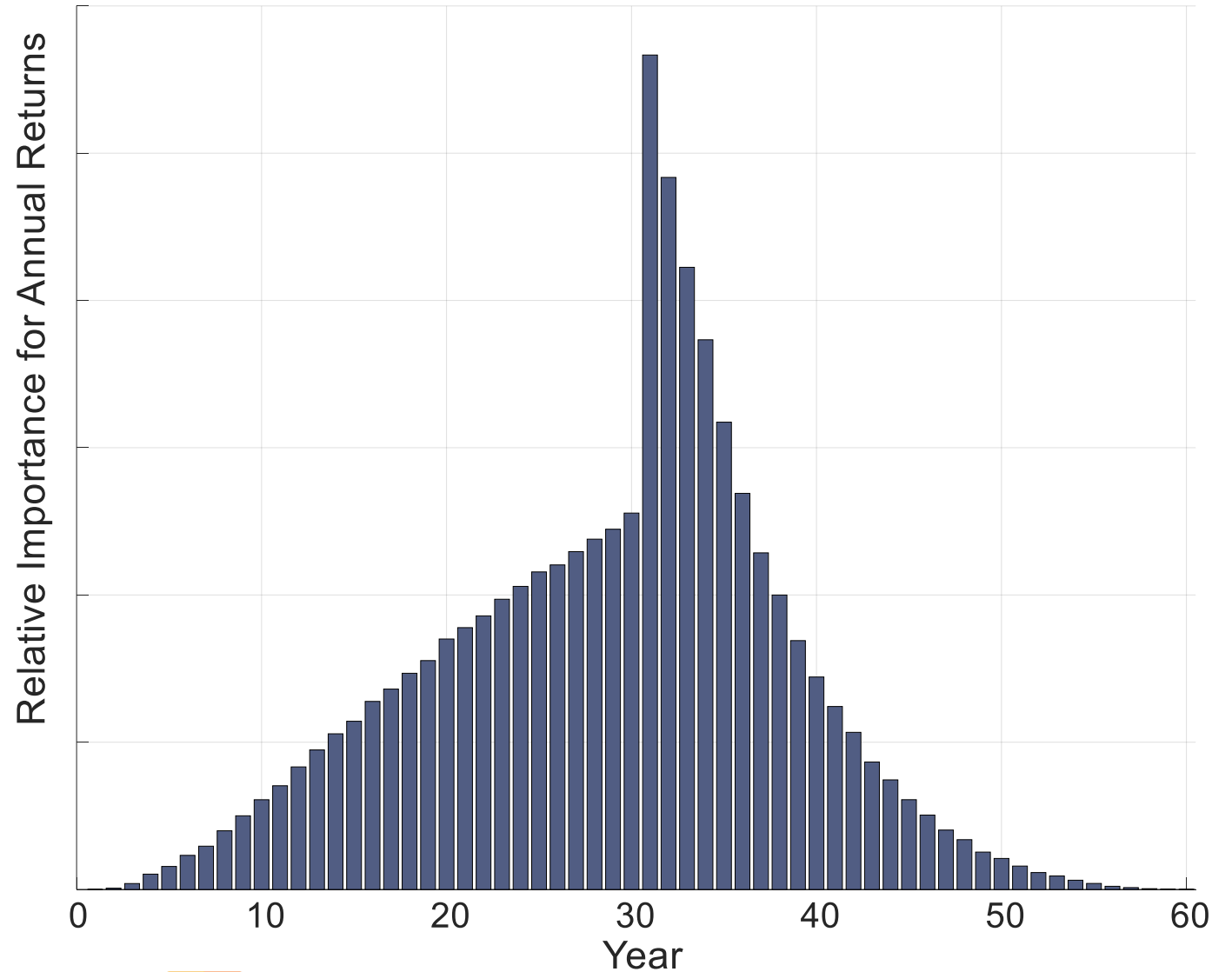
Note: Assumptions include a thirty-year retirement duration, no investment fees, constant inflation-adjusted withdrawal amounts, and annual rebalancing.

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

Lifetime Sequence of Returns Risk

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

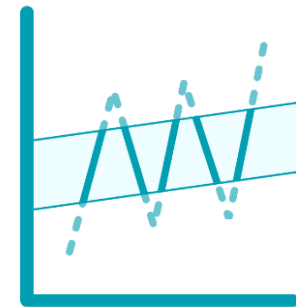
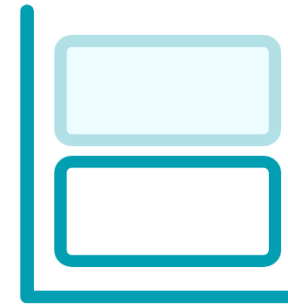
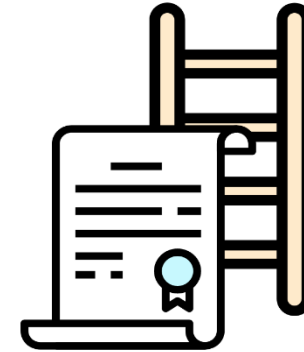
Based on SBBI Data, 1926-2022,
S&P 500 and Intermediate-Term
Government Bonds



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



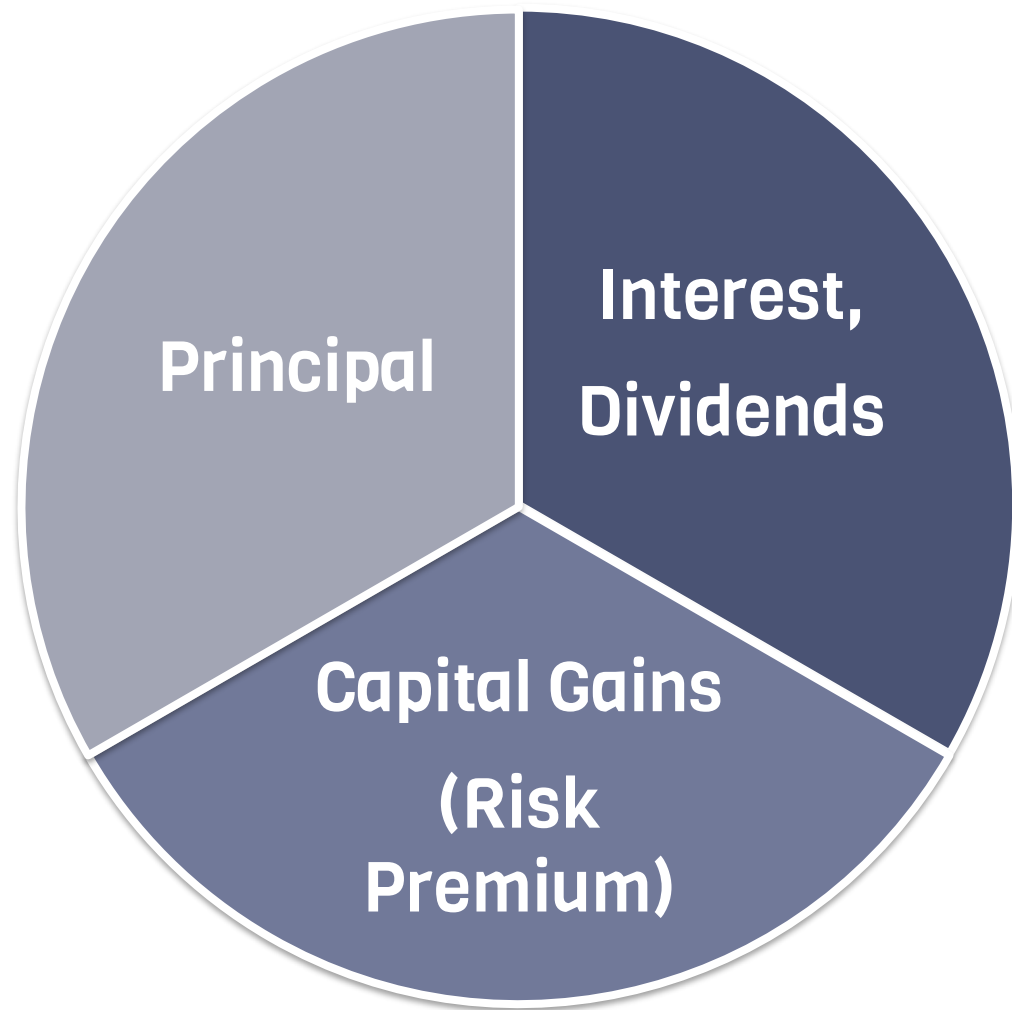
Risk Premium & Risk Pooling



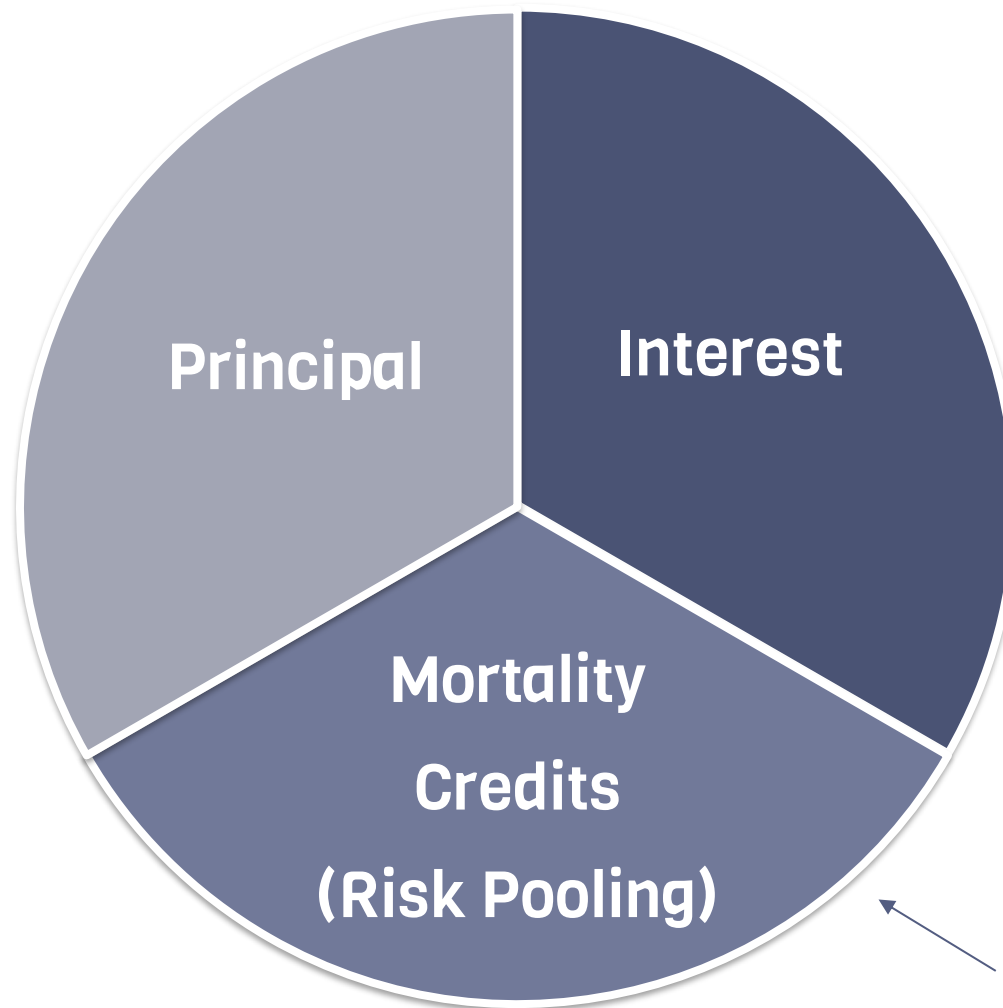
Different Strategies are Viable



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



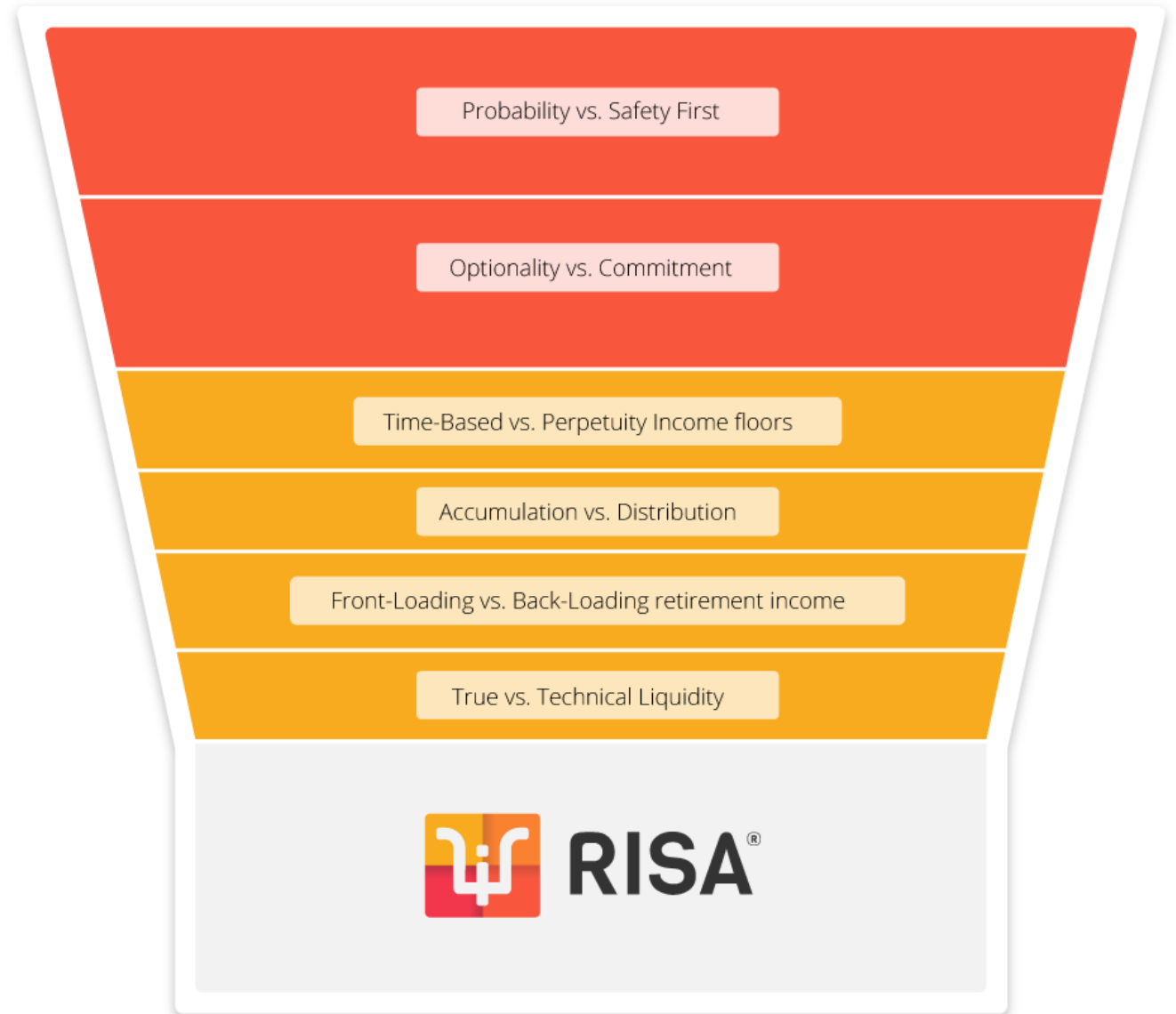
RISA Research Design



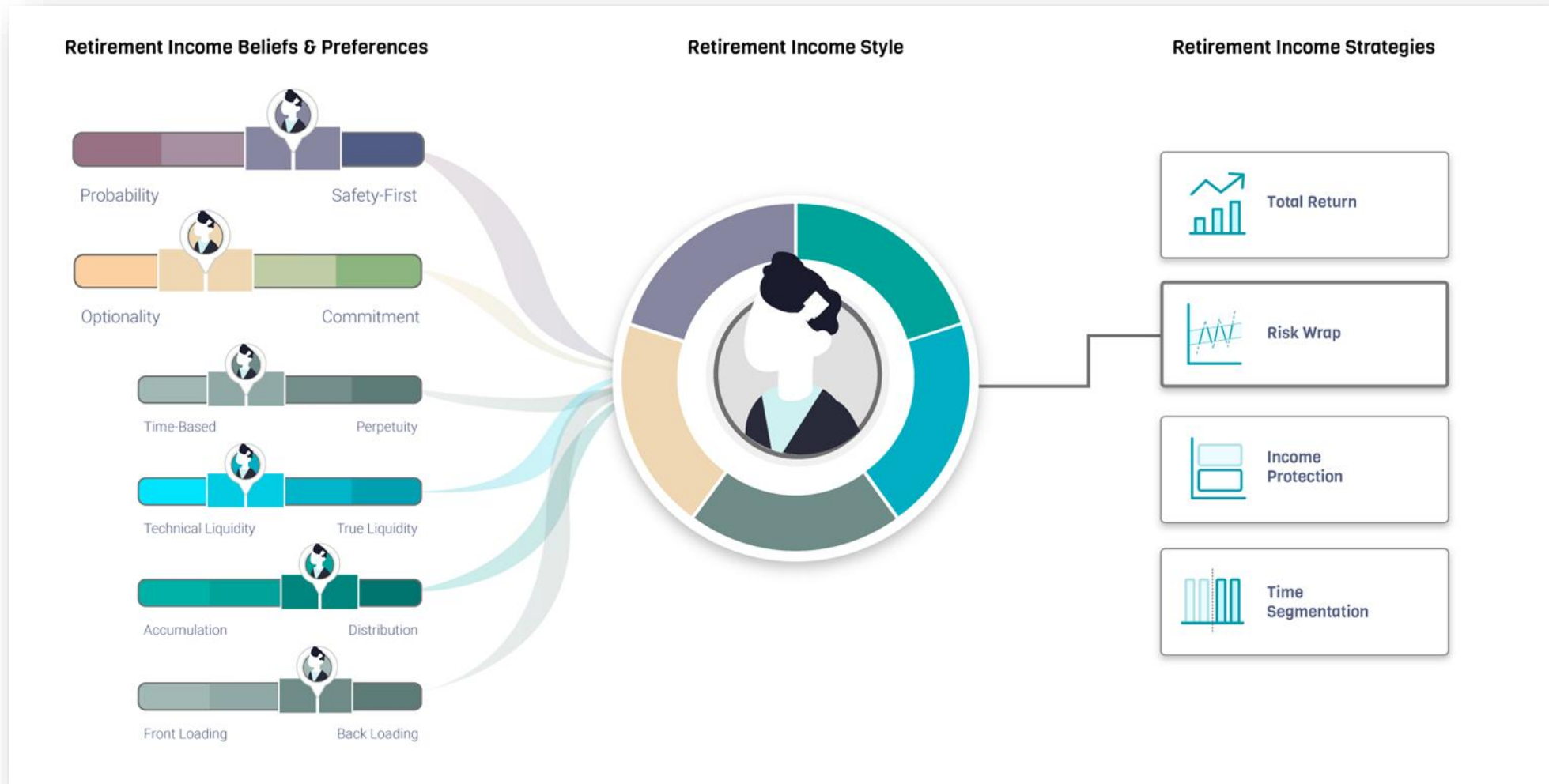
Retirement Income Factors

**Primary
RISA® Factors**

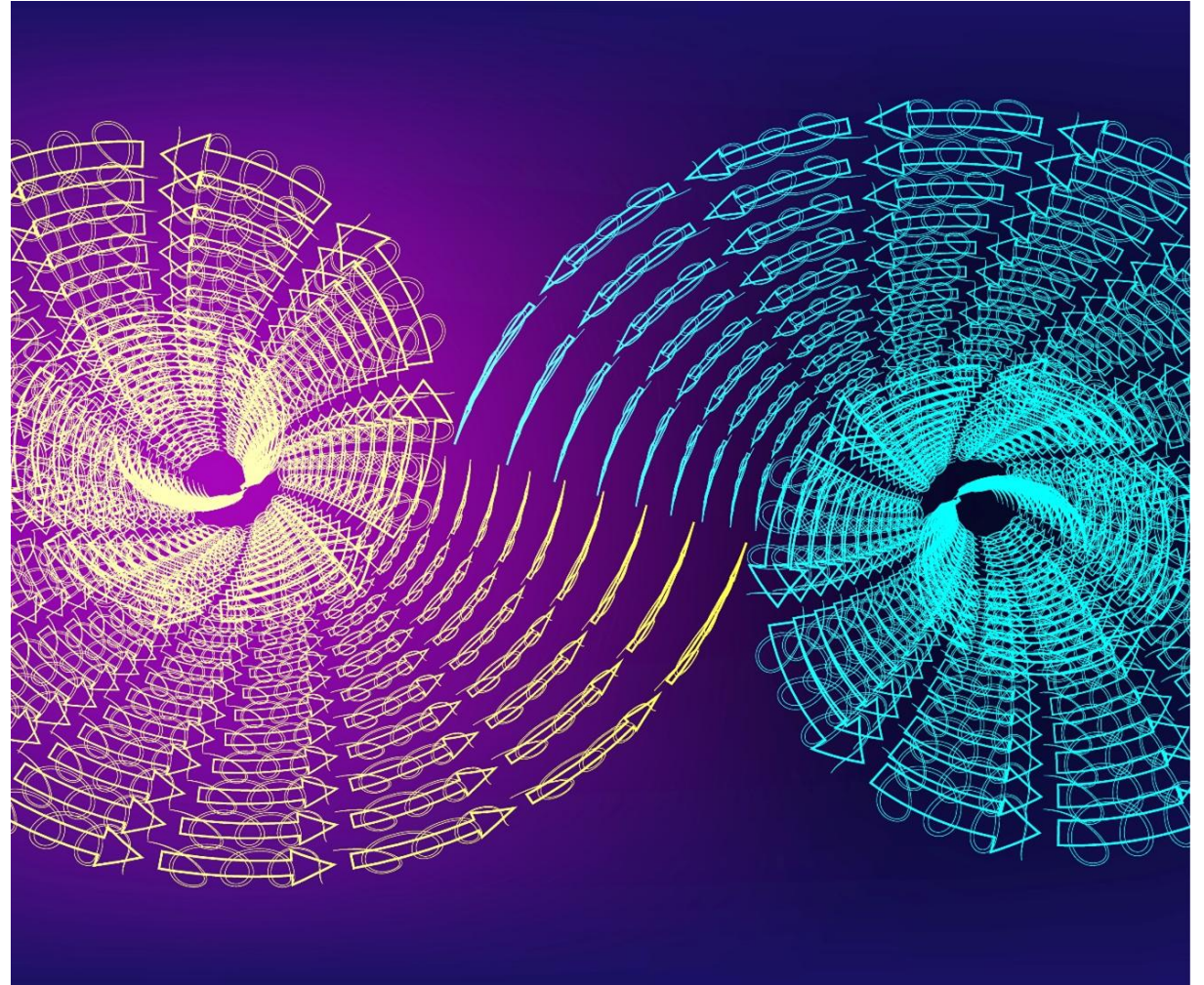
**Secondary
RISA® Factors**



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



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



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



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



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



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 over growth



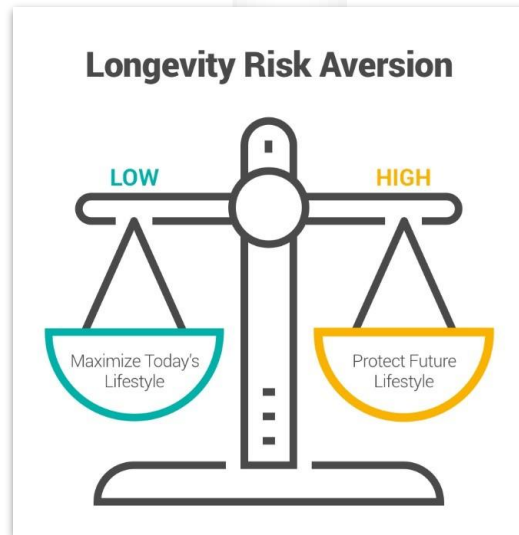
How do you balance current & future spending?

Front-Load



Back-Load

Spend more today
when you are assured
of life and health



Spend less today to
better protect future
lifestyle

RISA® Matrix



Matching Styles to Strategies



RISA® Matrix



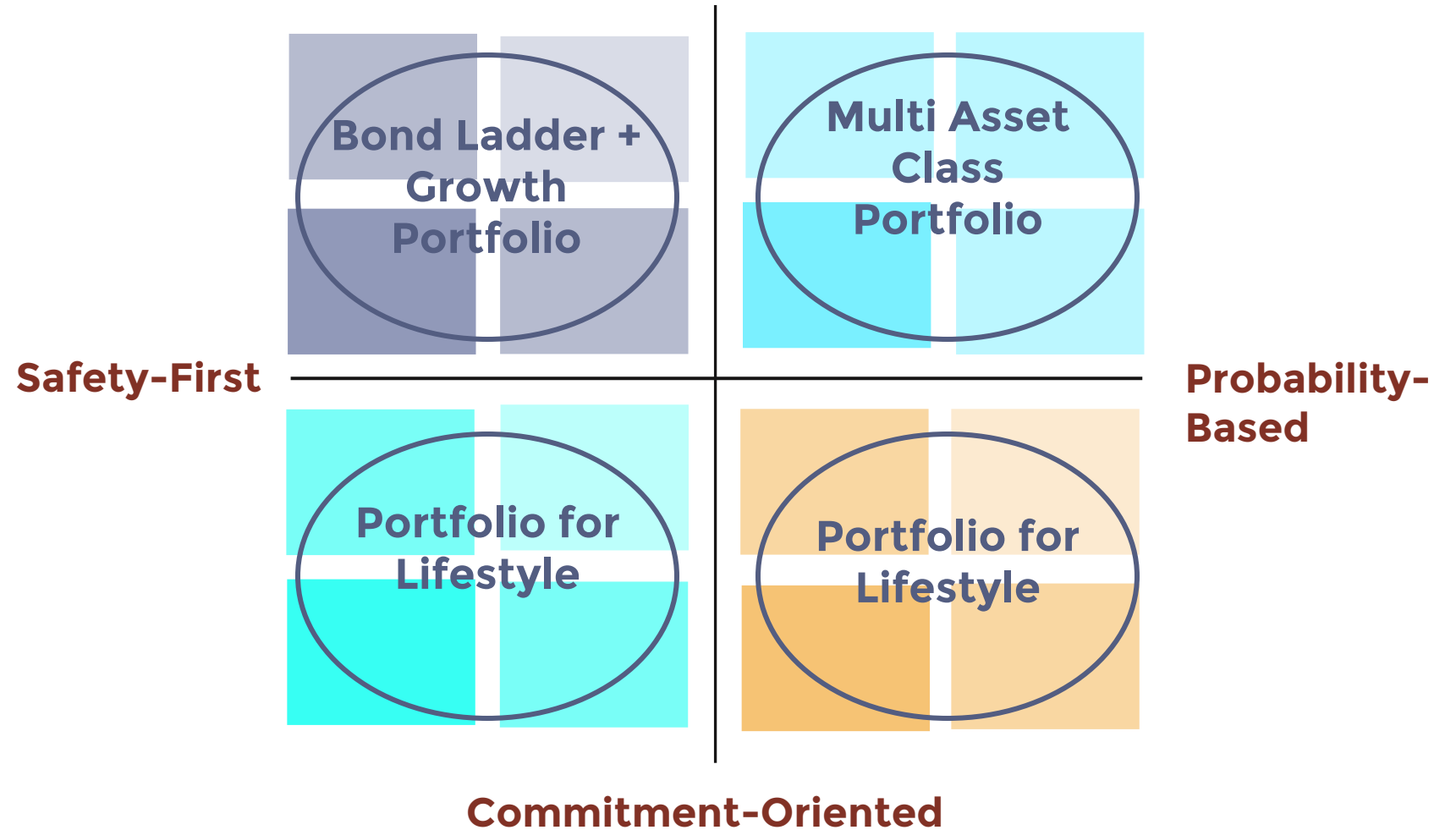
RISA® Retirement Style Distribution

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

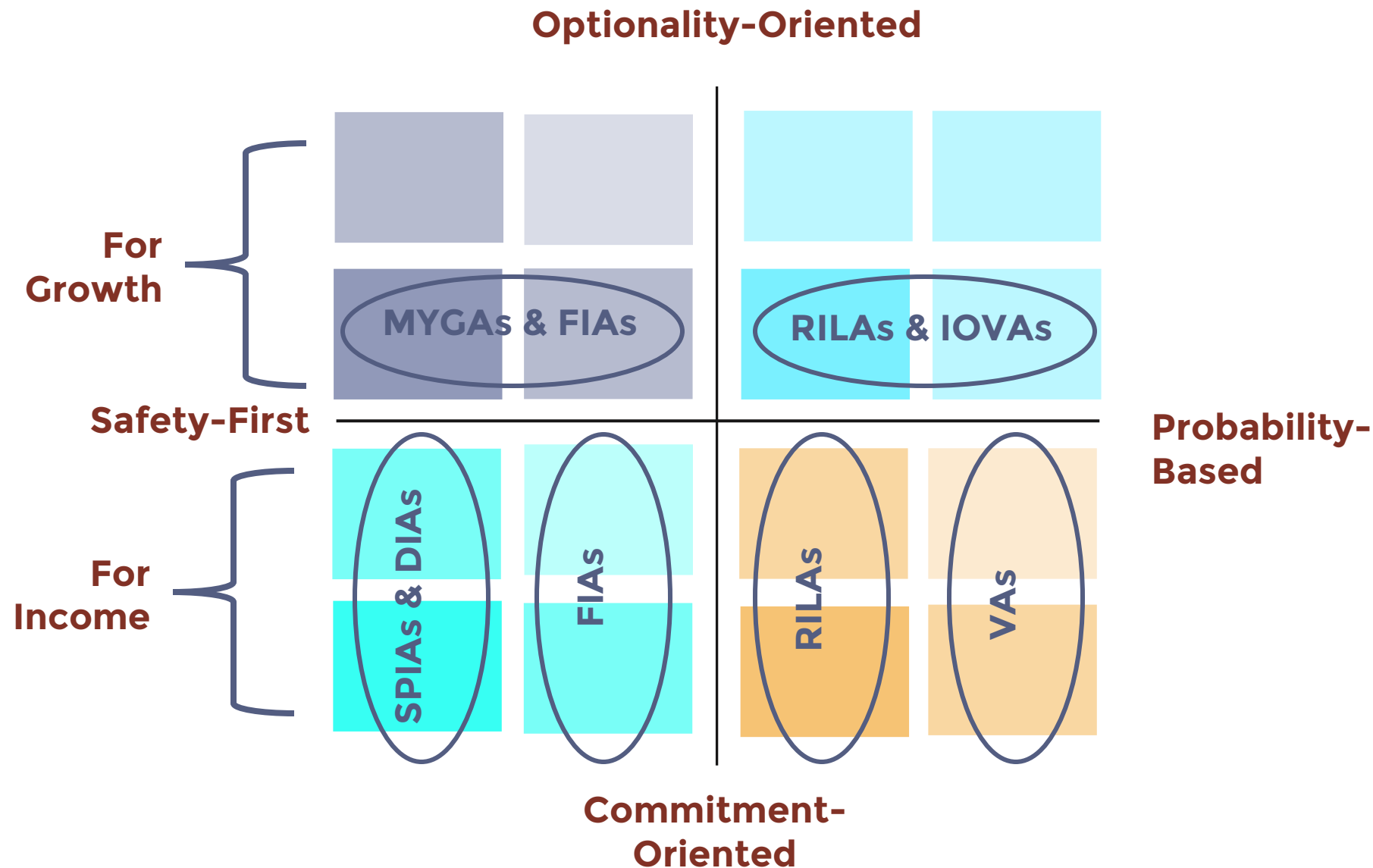


RISA® Style Matrix – Role for Investments

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.

20%	9%	10%	4%
18%	30%	15%	8%
50%	37%	27%	16%
61%	55%	32%	29%

**Annuity
Candidates**



How Do Retirement Risks Affect Your Goals?

Longevity

Lifestyle

Legacy

Liquidity

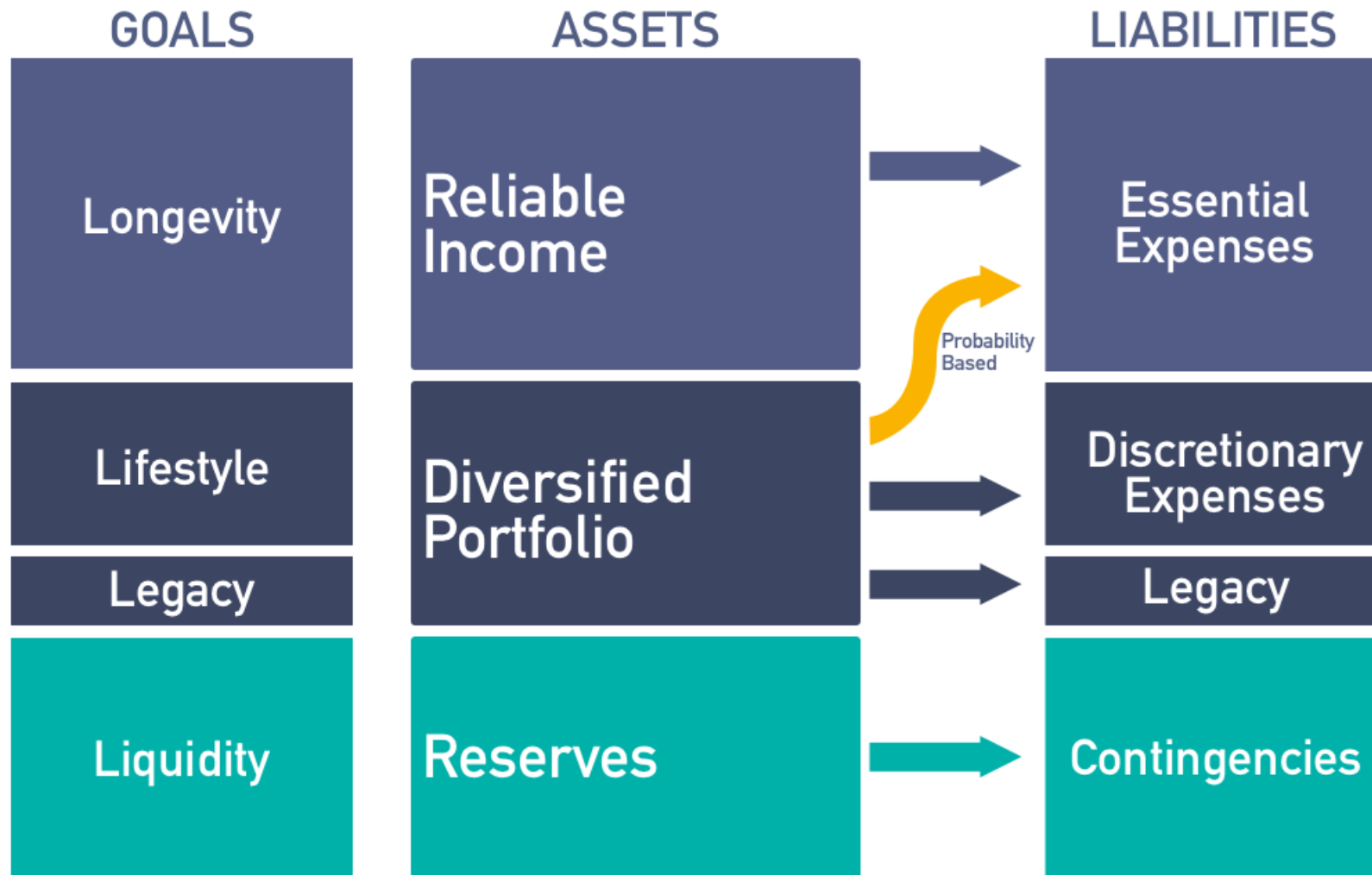


Retirement Concerns

	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?**

Take your RISA Assessment:

Wade.pfau@risaprofile.com

www.RisaProfile.com

