

Visualizing Retirement Income Strategies

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What does an 84% probability of success mean?

Your Retirement Plan

How many years should your savings last?



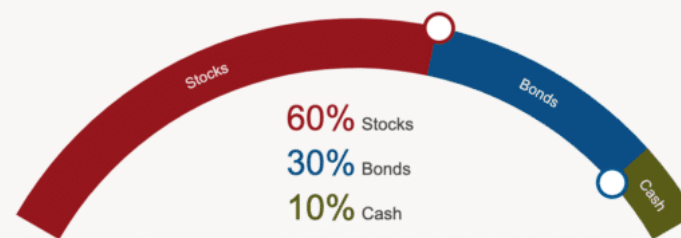
What is your savings balance today?



How much do you spend each year?

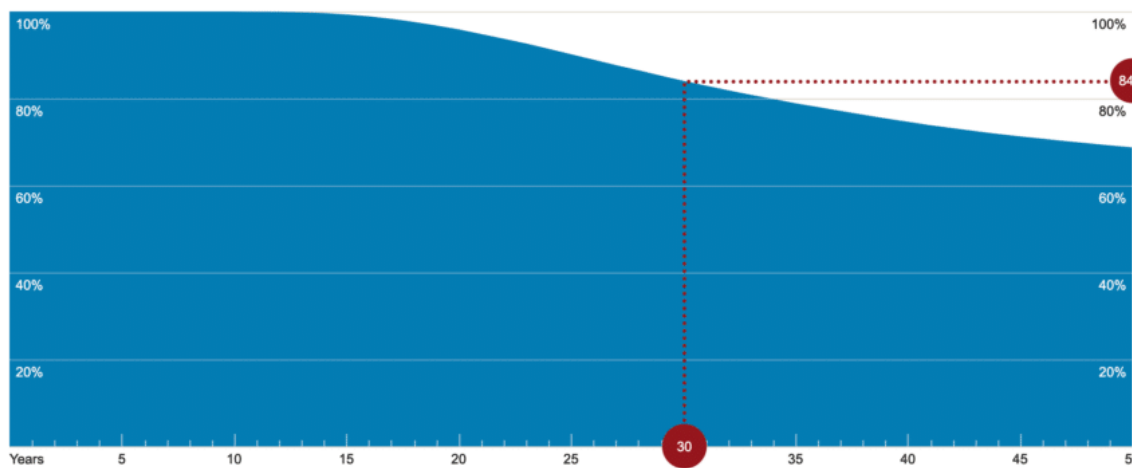


How are your savings allocated?



Re-run Simulation

How long will your savings last?



Probability that savings will last 30 years: 84%

Creating a Goal-Based Retirement Income Plan



Allocate between
lifestyle & legacy



Determine
spending flexibility



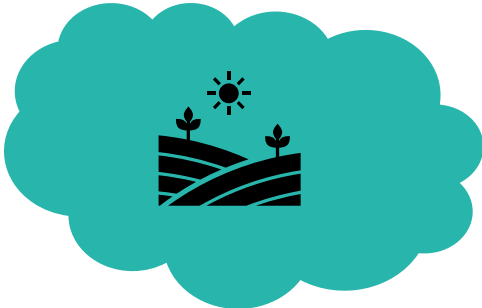
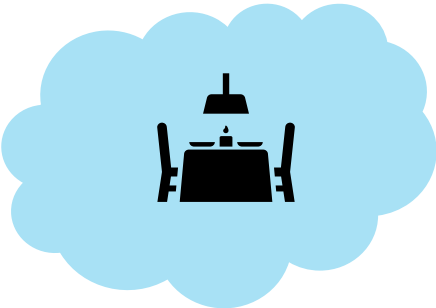
Role of equity risk



Value of lifetime
income in reducing
idiosyncratic risk

Setting Lifestyle and Legacy Goals

Lifestyle (Retirement income)

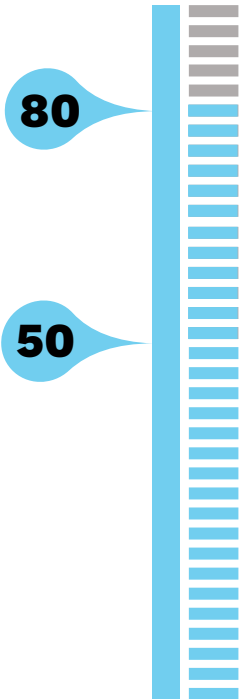


Legacy

Portfolio Allocation: \$800,000

Retirement Income: \$40,000
Social Security: \$30,000

Total: \$70,000



Portfolio Allocation: \$200,000

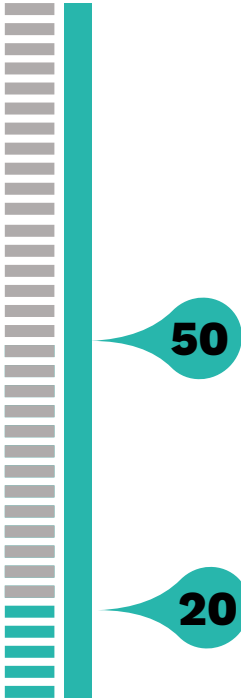
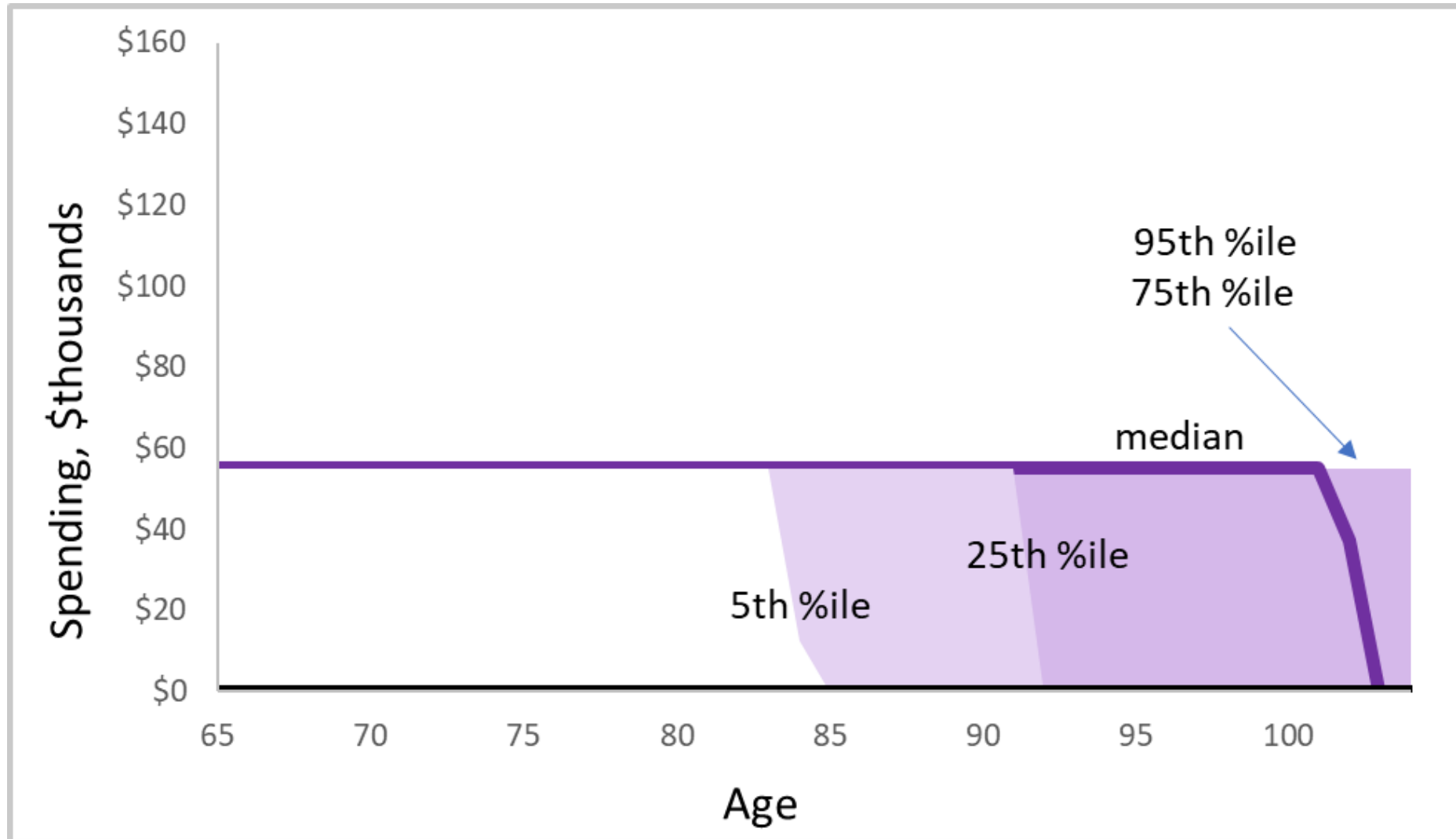
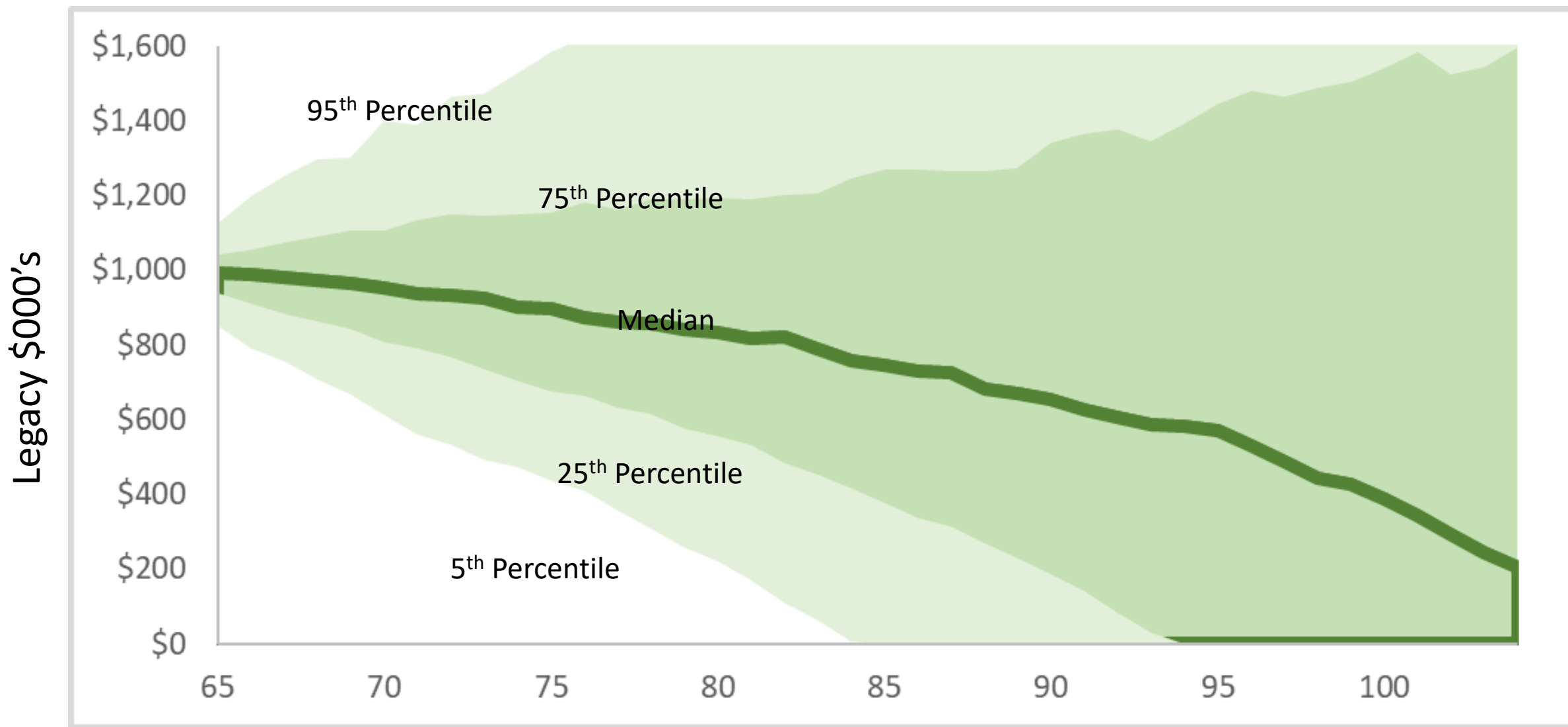


Illustration of a fixed withdrawal rate rule

\$1m portfolio, \$55k income, 40/60 allocation, 1% AUM

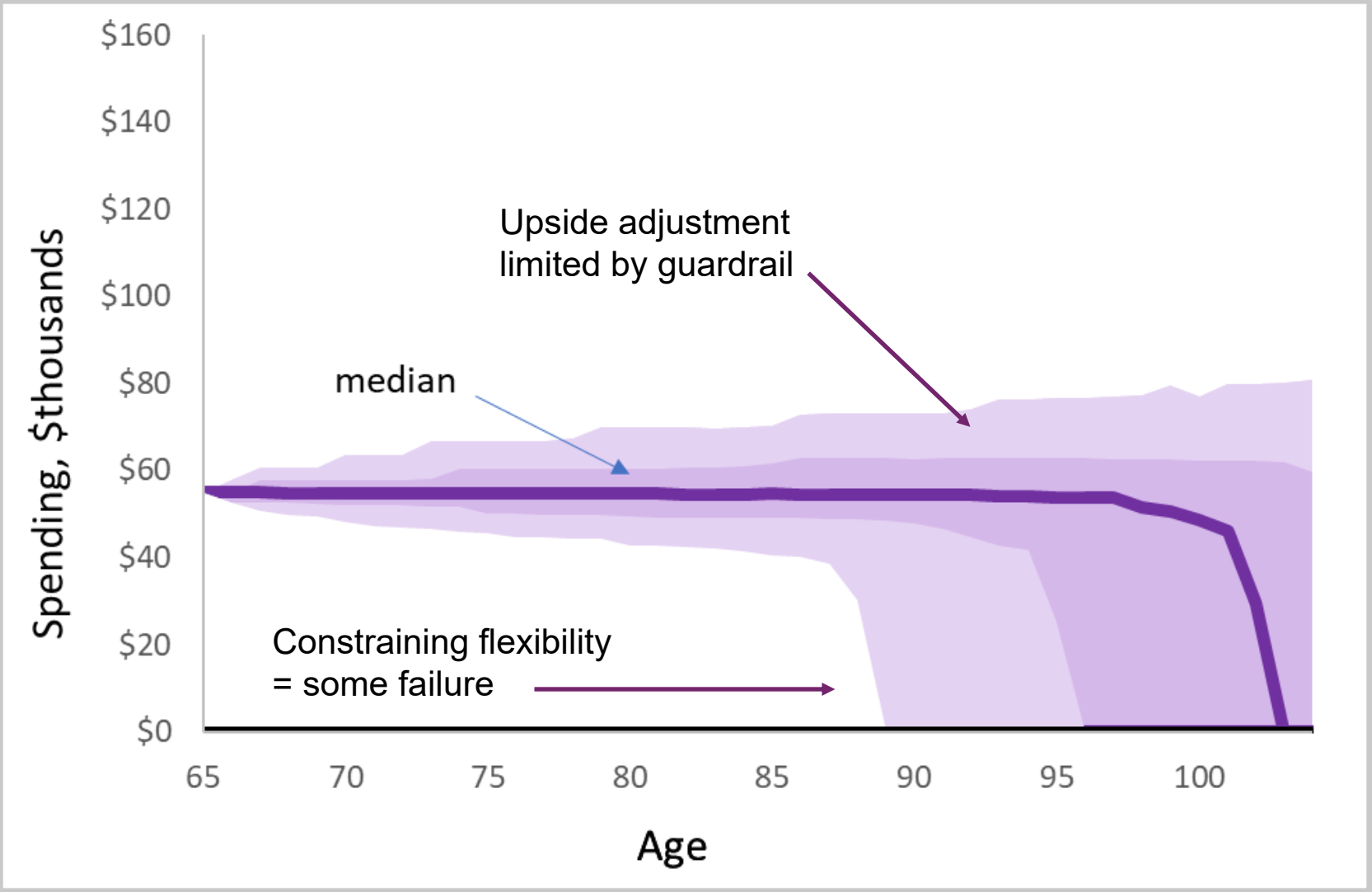


Legacy values with a fixed withdrawal rate rule



Modest Guardrail (Cap and Floor) Strategy

Adjust spending to 5% total change depending on asset returns



Longevity risk with an investment portfolio

Healthy 95-year old woman

Age 95

\$500,000 wealth for
income goal

How do you
allocate the
\$500,000?

Age 96, 81% still alive

- Age 97, 64% still alive

- Age 98, 49% still alive

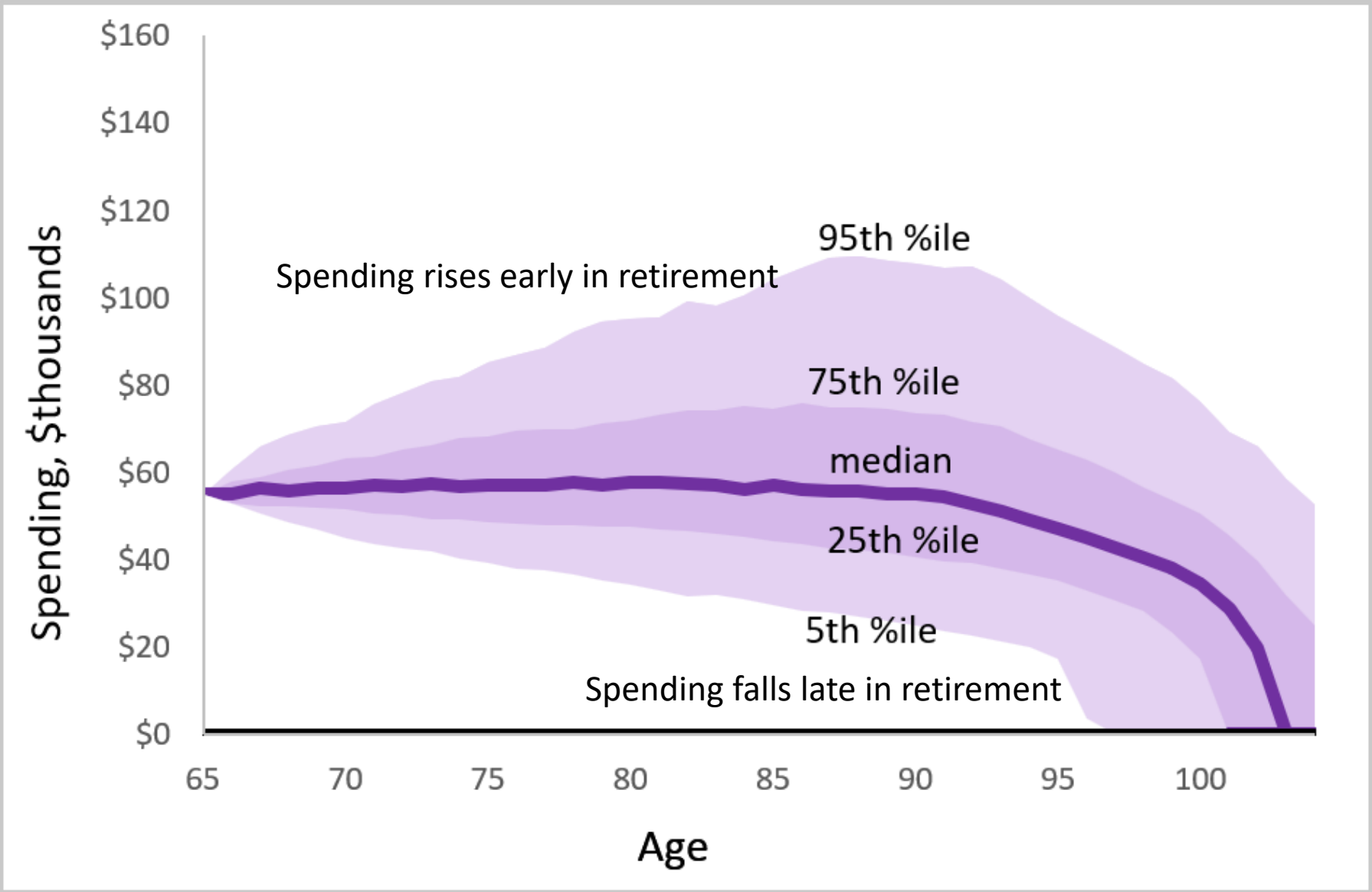
- Age 99, 36% still alive

- Age 100, 25% still alive

- Age 101, 17% still alive

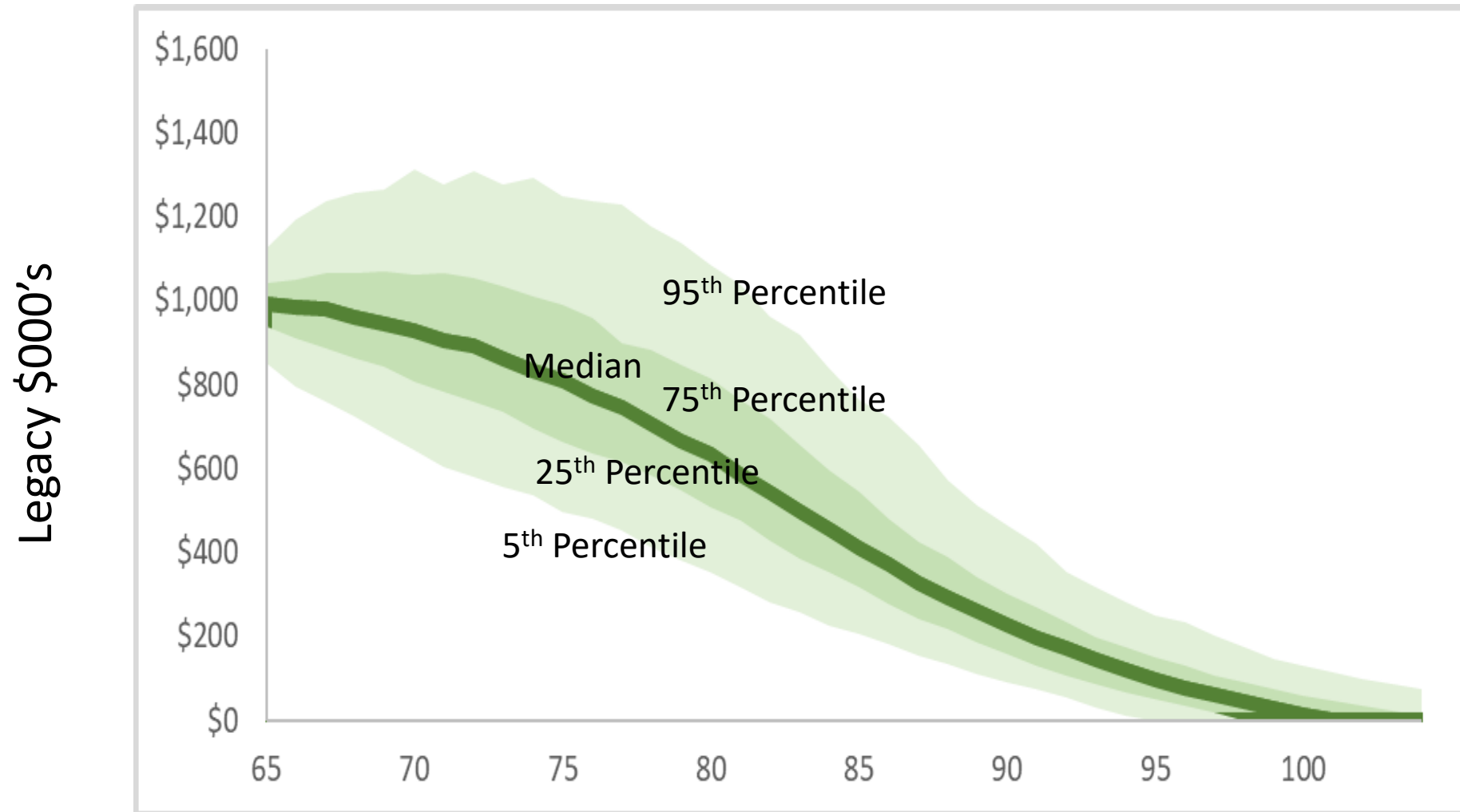
Unconstrained Annual Adjustment (RMD-style)

Current balance/expected remaining longevity



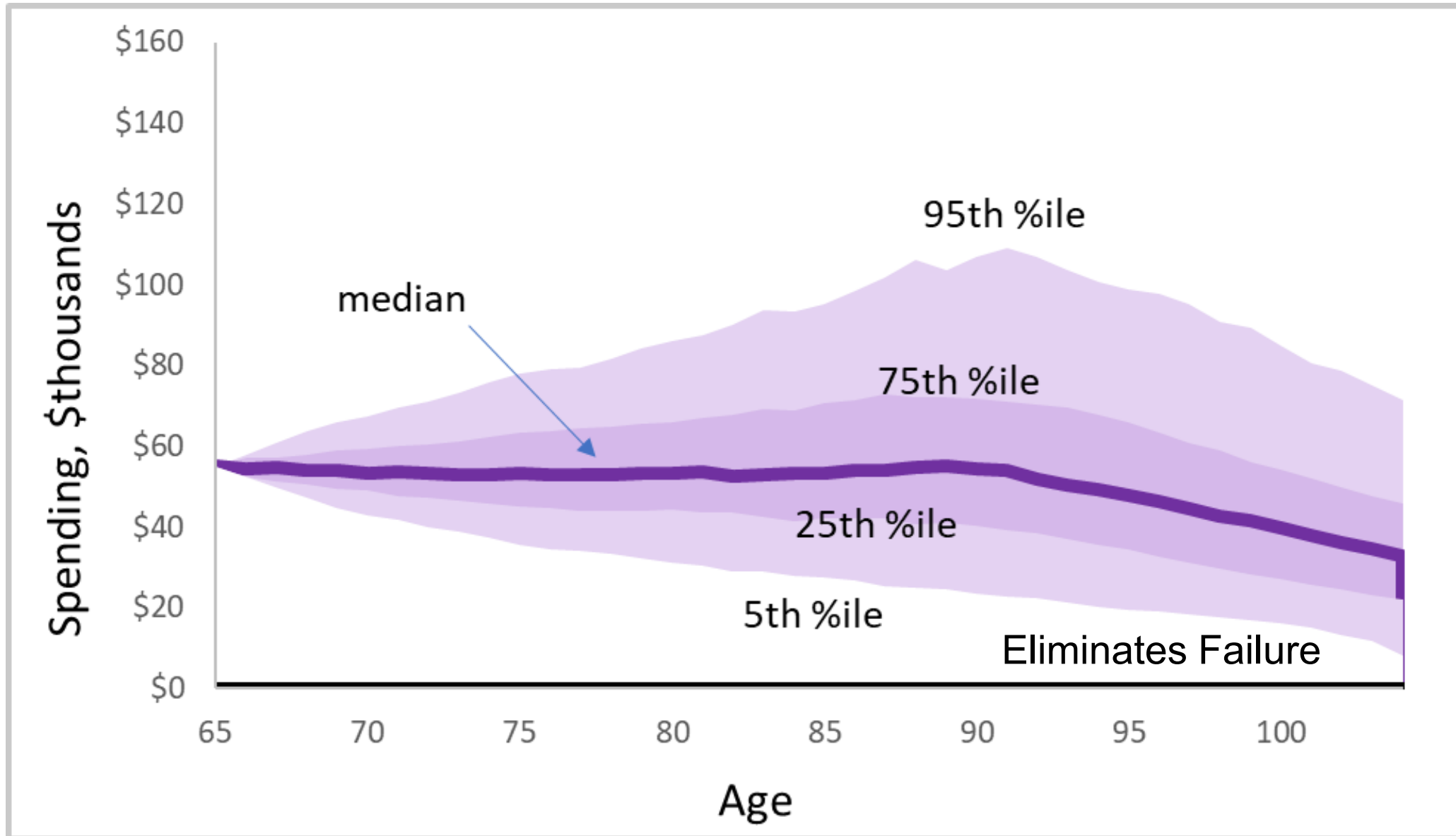
Unintended bequests and withdrawal method

If the purpose of this wealth is income, RMD method is pretty efficient



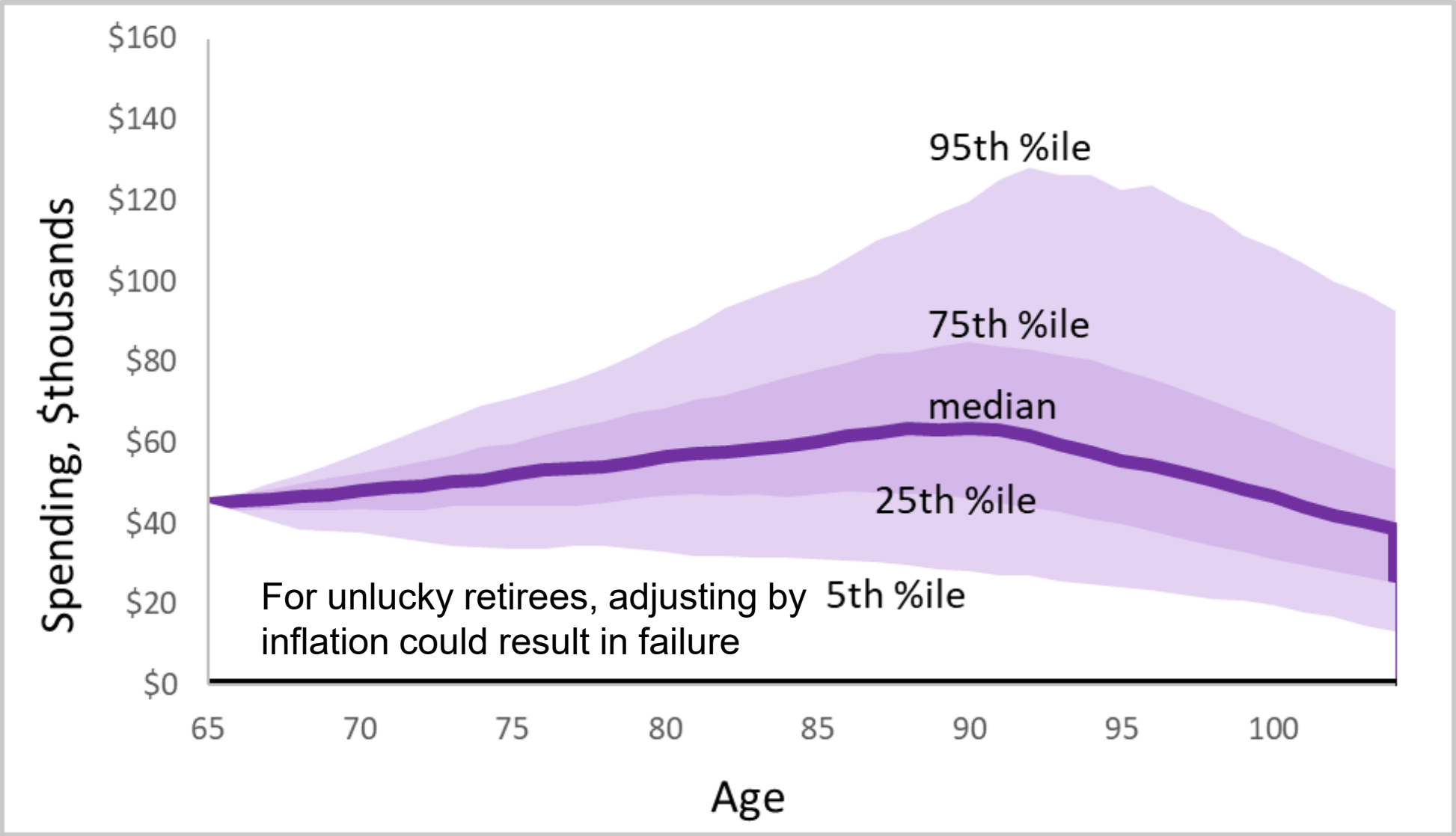
5% Annual Spending Constraint (unlimited lifetime constraint)

Annual change determined by algo based on longevity and assets

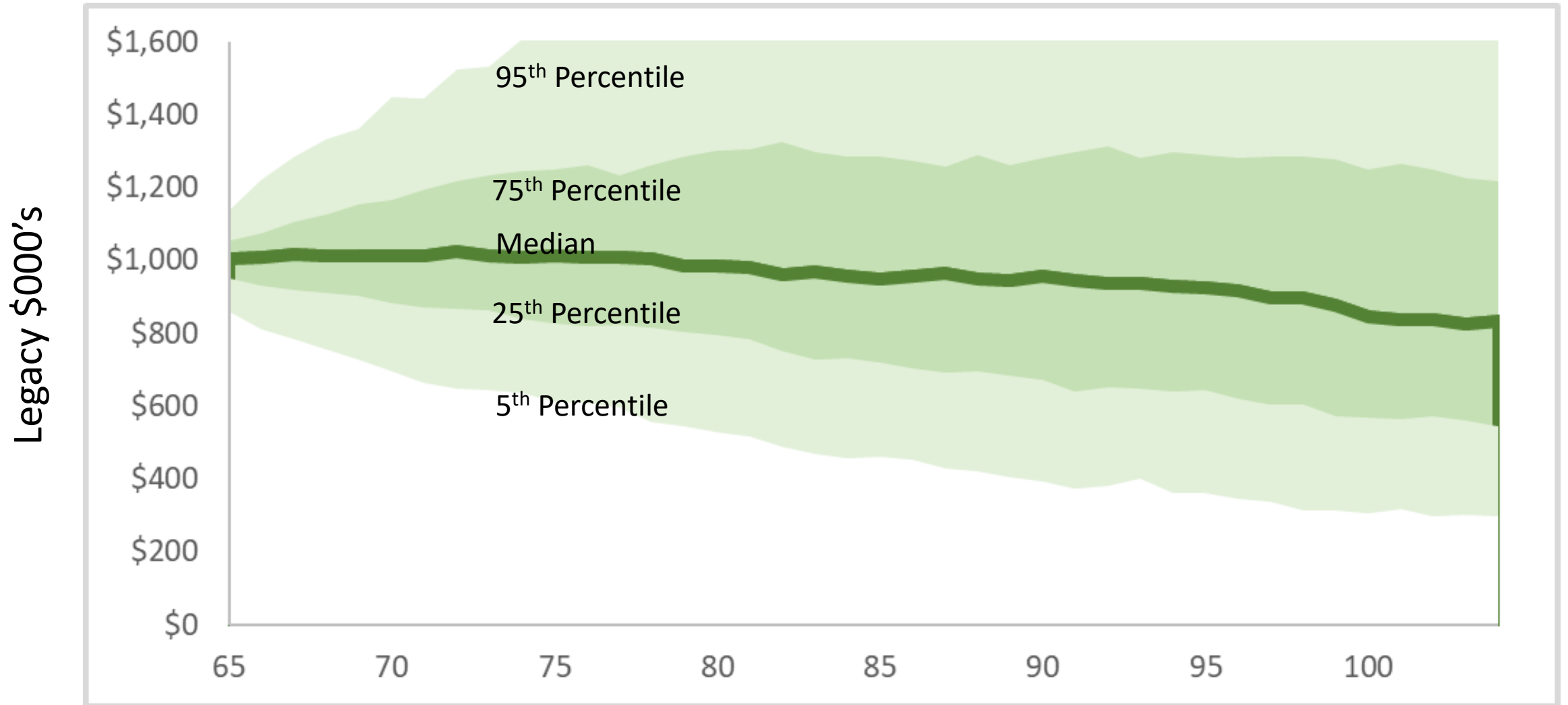


Lower Initial Spending Goal (4.5%) Increases Spending Slope

Spending increases determined by performance, not inflation

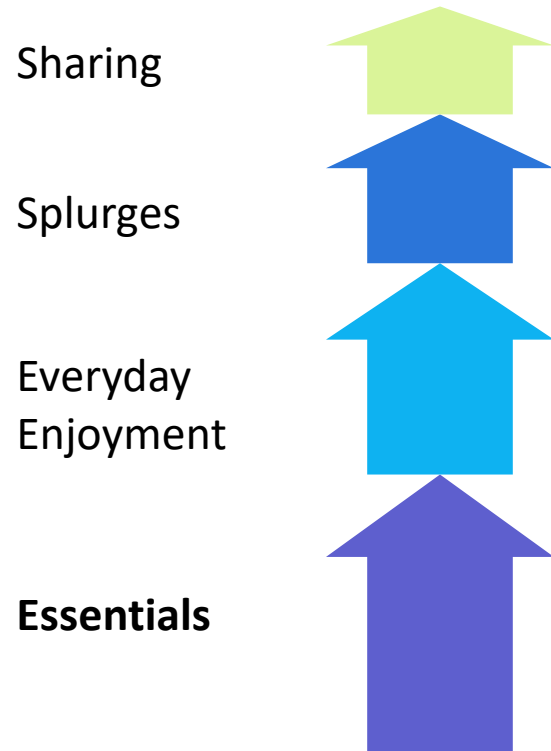


Lower initial income increases legacy values Or, leads to higher unintended bequest

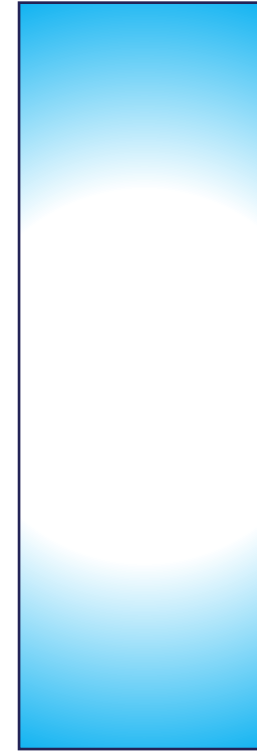


Matching income risk to a lifestyle

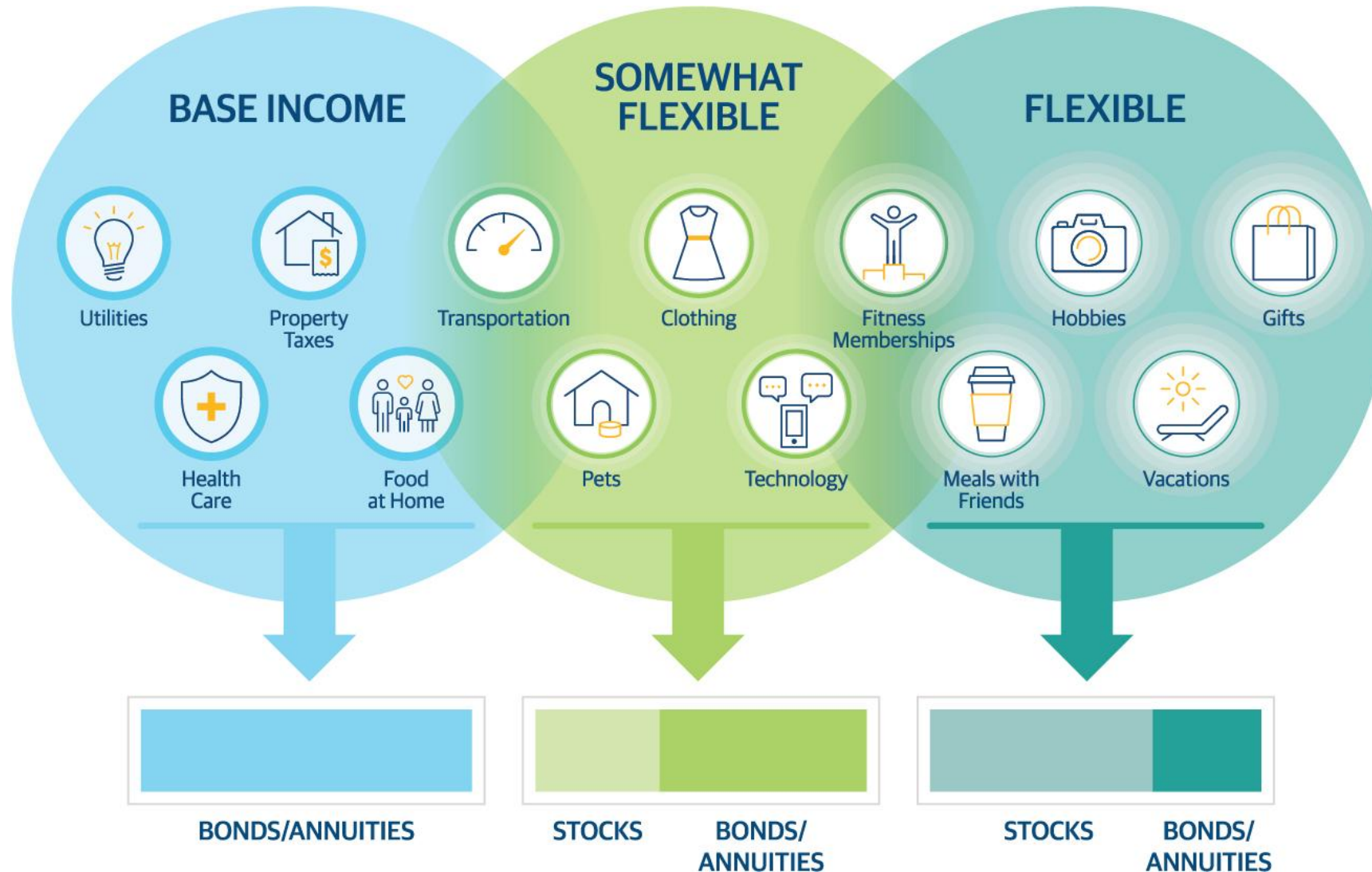
Retirement Spending



Flexibility



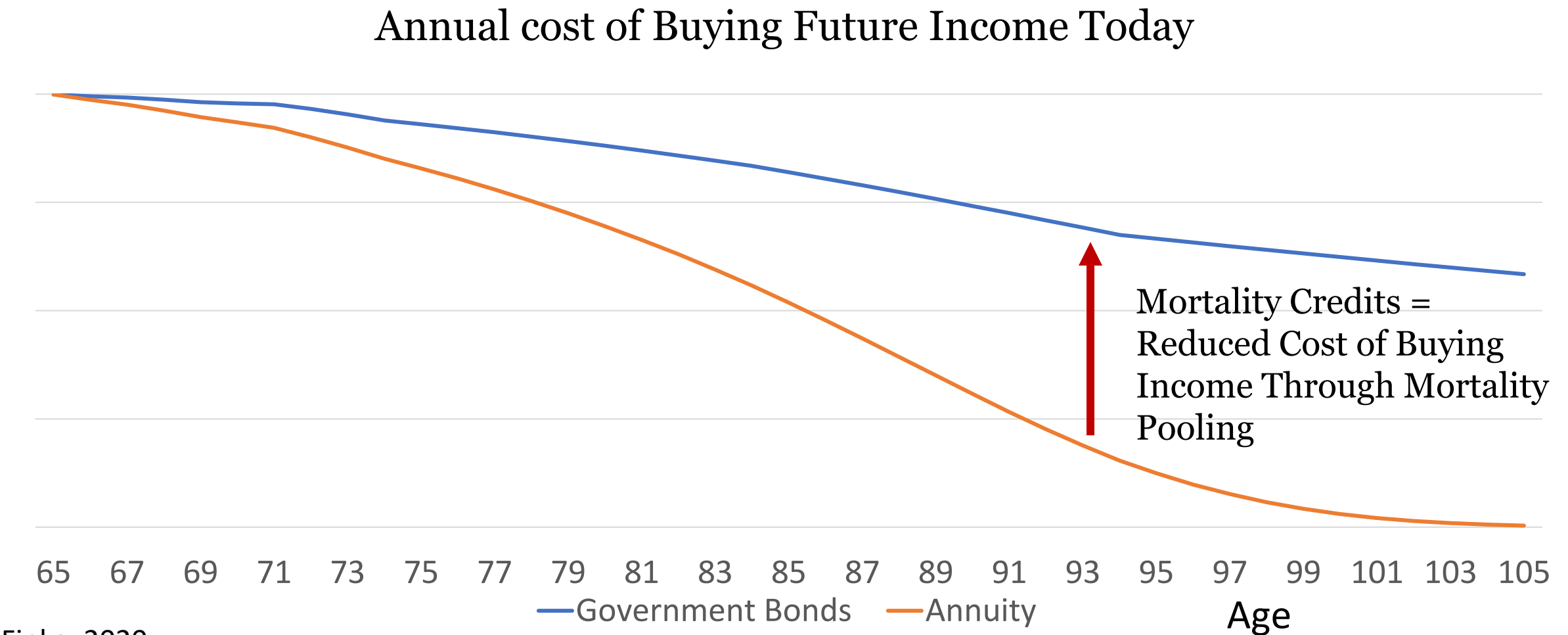
Matching investment risk to lifestyle flexibility



The Birthday Cake Problem



Cost of Doing it Yourself Vs. Mortality Pooling



Basic Retirement Income Choices

- Visualize investment risk and annuity allocation
- Move the dials to choose the income path you want



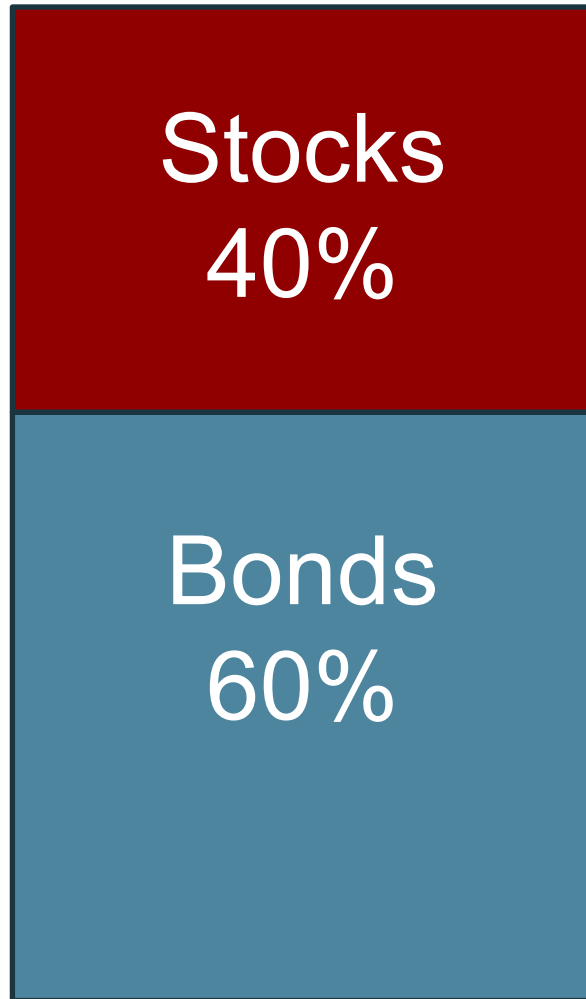
Investment Risk



Annuity Allocation

Asset Allocation and annuities

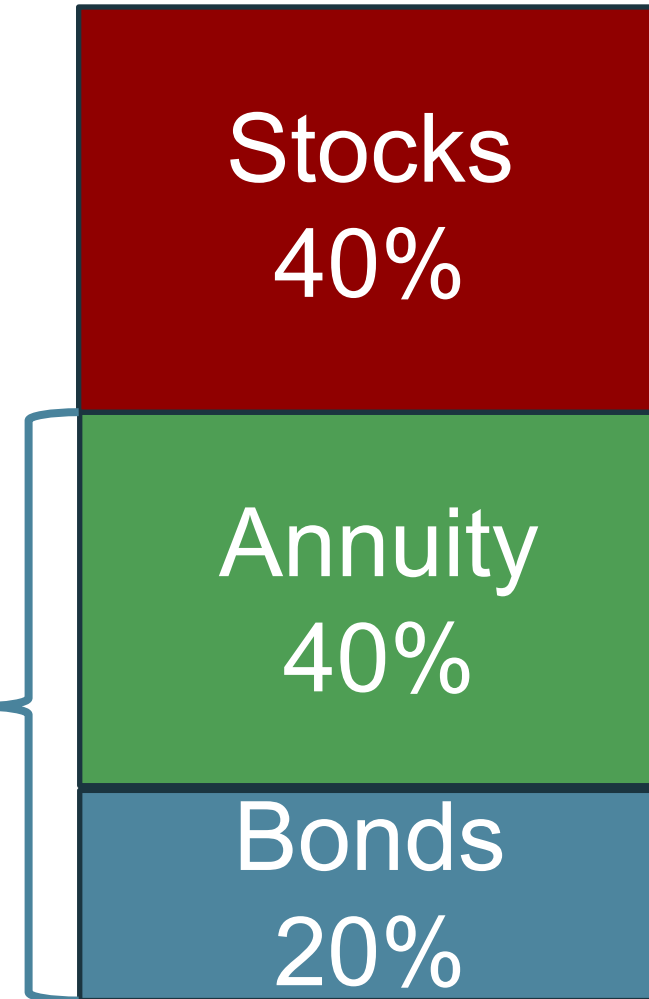
Investments-only
Asset Allocation



Remaining
investment
portfolio =
67% stocks,
33% bonds

Blended fixed
income allocation

Partial Annuity
Asset Allocation

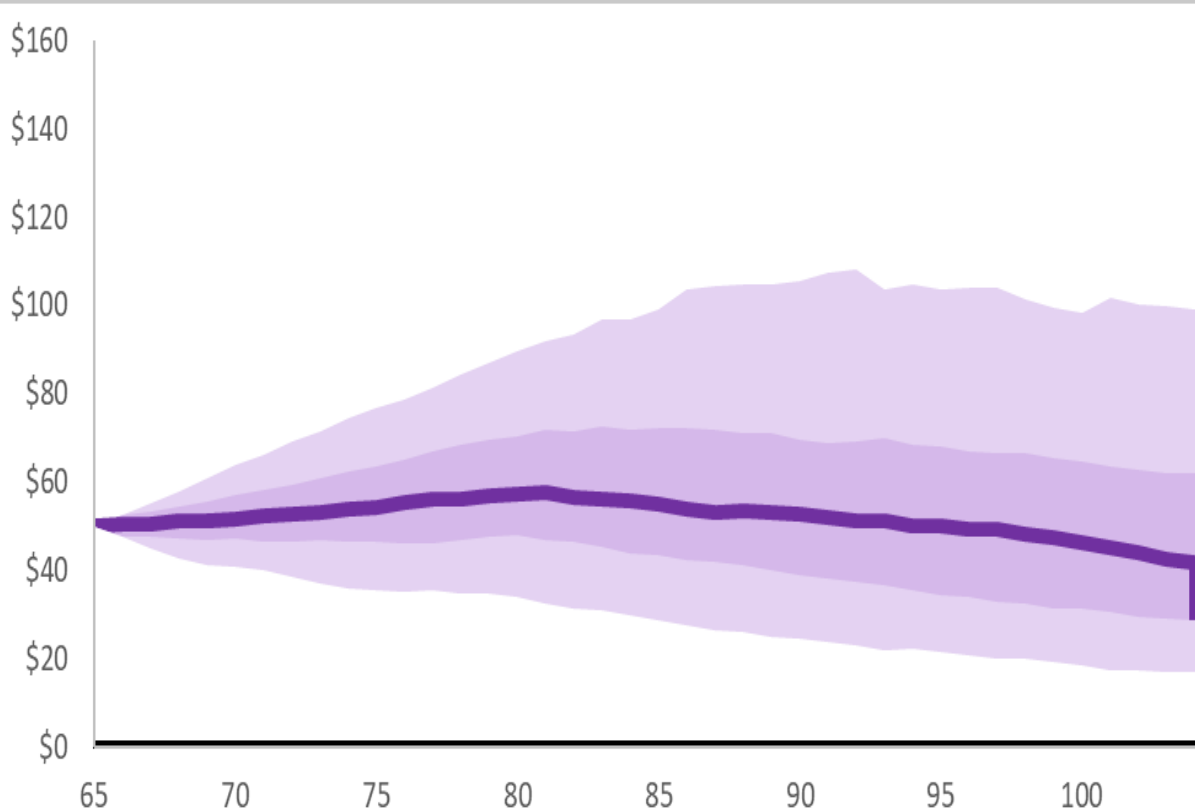


How transferring longevity risk affects income paths

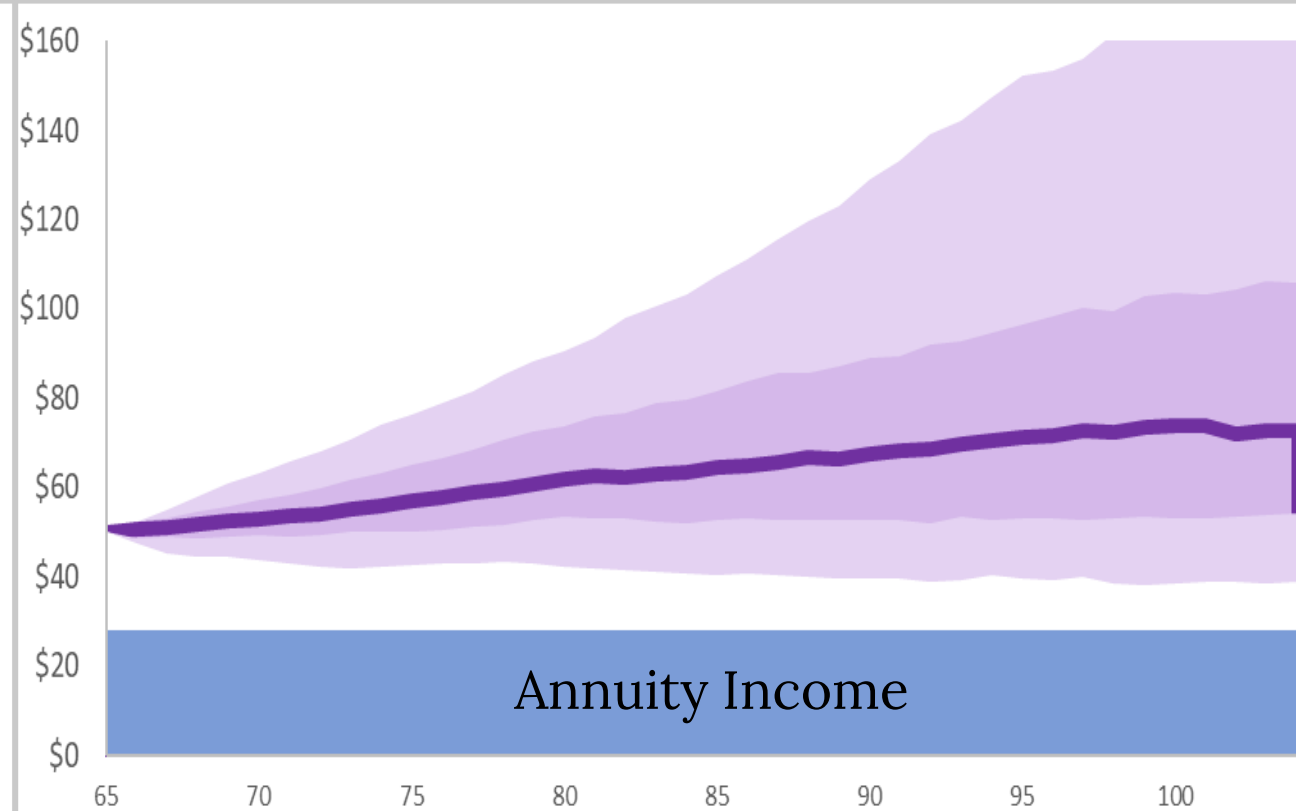
Example 40/60 allocation, use \$400k of bonds to buy annuity, 67/33 allocation remaining assets

\$400,000 annuity generates \$26,000 of
\$50,000 goal vs. \$20,000 at 5% withdrawal

Annual Income \$000



Annual Income \$000



What mortality risk pooling allows you to do

- Spend more from longevity-protected bond portfolio (annuity)
- Spend less from remainder of portfolio to meet income goal
- Take more optimal investment risk with remaining portfolio
- Example \$400,000 annuity with 6.5% payout rate = \$26,000 of \$50,000 goal
Vs. taking 5.5% of \$400,000 bond portfolio (\$26k - \$22k = \$4k less from remainder)

Fund Inflexible Expenses

Age 60 Example

- \$200,000 today in CDs
- 40% combined state and federal marginal tax bracket between 60 & 65
- Retire at 65

Choice 1:

Buy a 5-year CD at 5%
At 65, invest in bonds
that provide income
with a 90% chance of
success*

* Probability of not outliving savings
according to Society of Actuaries annuity
mortality table

Choice 2:

Buy a 5-year CD at 5%
At 65, buy an income
annuity

Choice 3:

Buy an annuity with a
roll-up on income
base and a
guaranteed lifetime
withdrawal benefit
(GLWB)

ANNUITY ADVANTAGE #1:

Tax Deferred Growth

Annuity (20 year, 5% return)

Vs. Annually Taxable Bond

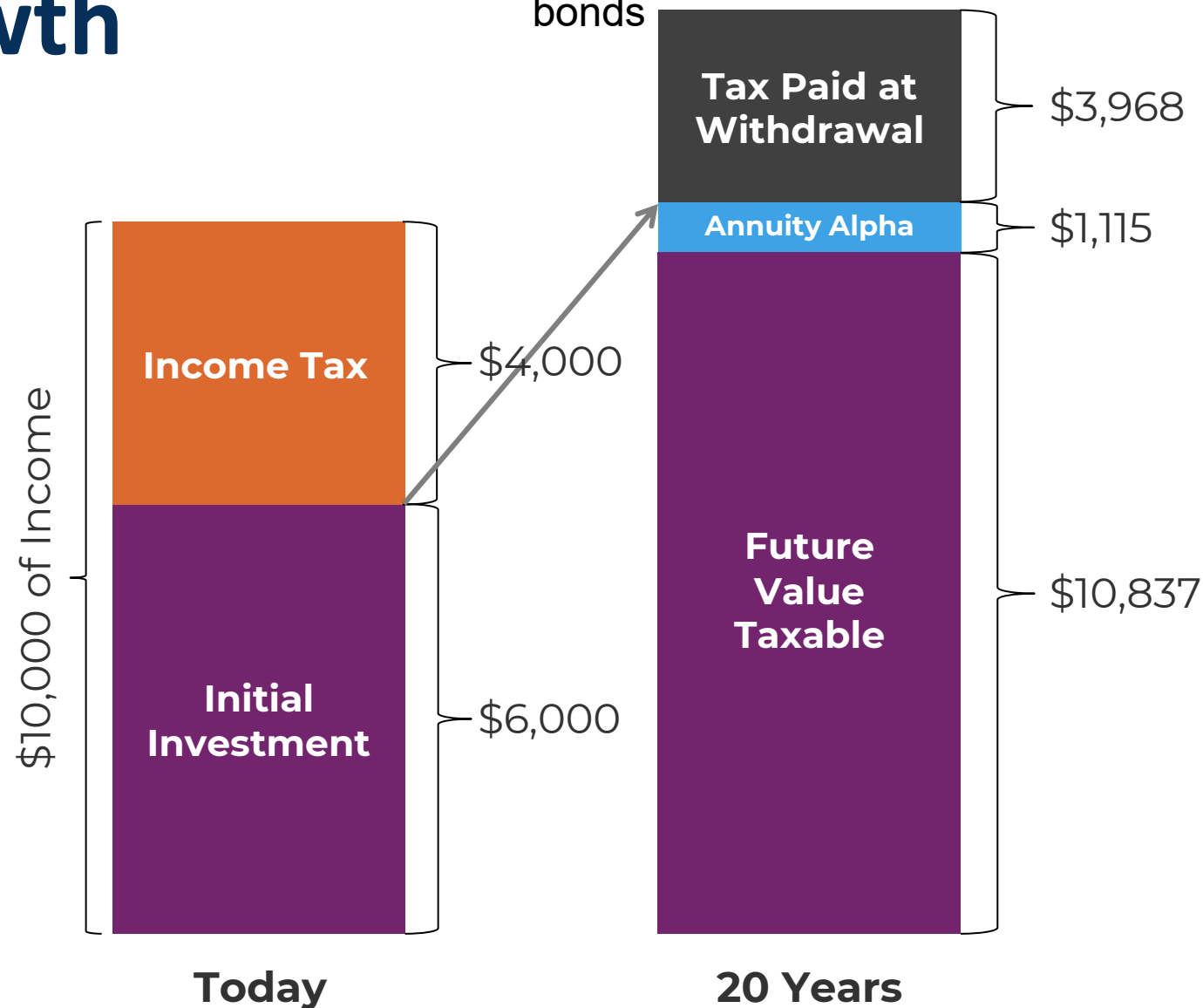
Gross Return = 5%

Net Return Bonds = 3%

Net Return Annuity = 3.51%

51 basis point improvement

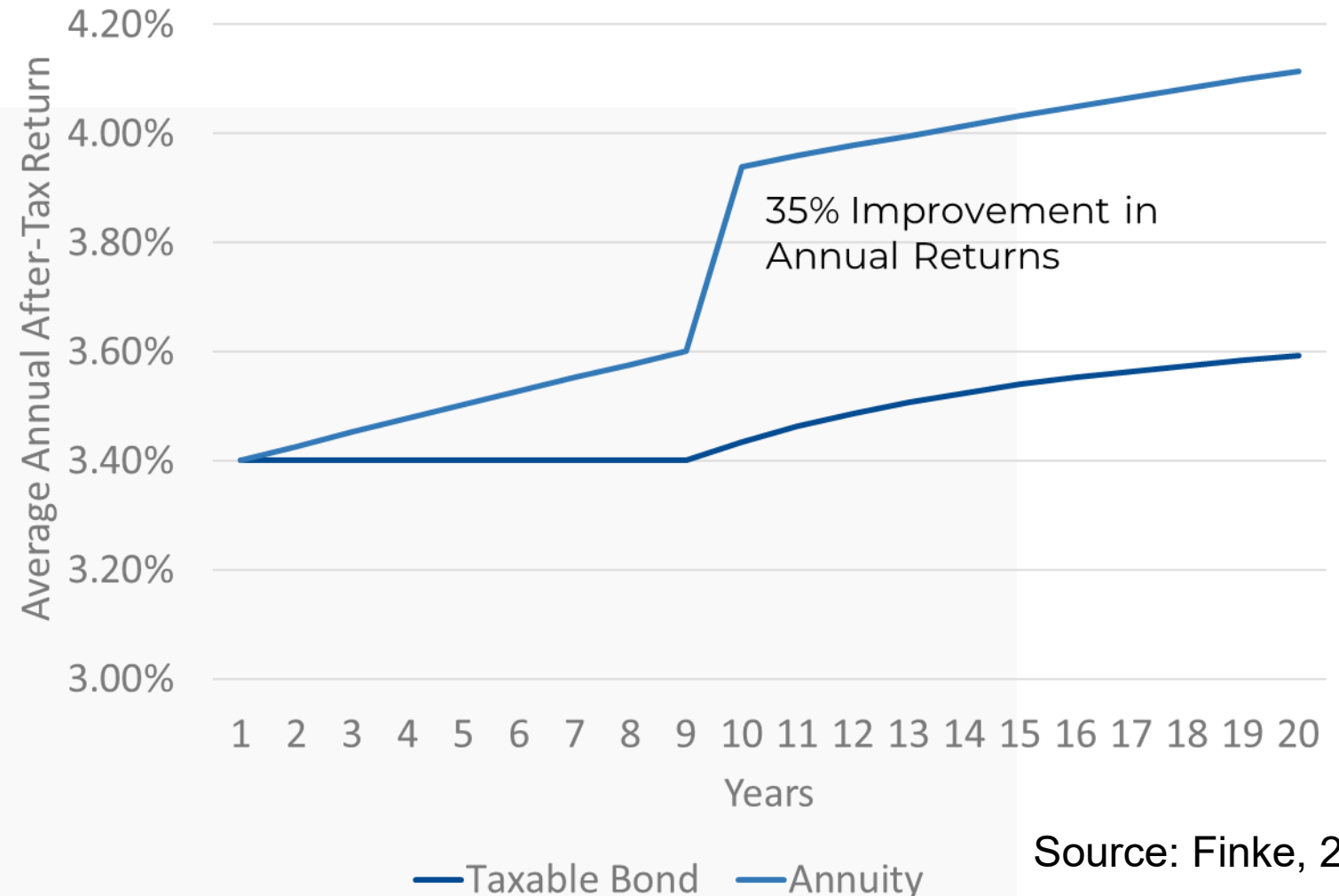
Red area represents added after-tax growth of assets within an annuity vs. annually taxable bonds



Source: Finke,

Total Net Return & Differential Taxation

- 32% Ordinary Income Age 55-64
- 25% Age 65-74
- 5% Gross Return



Source: Finke, 2023

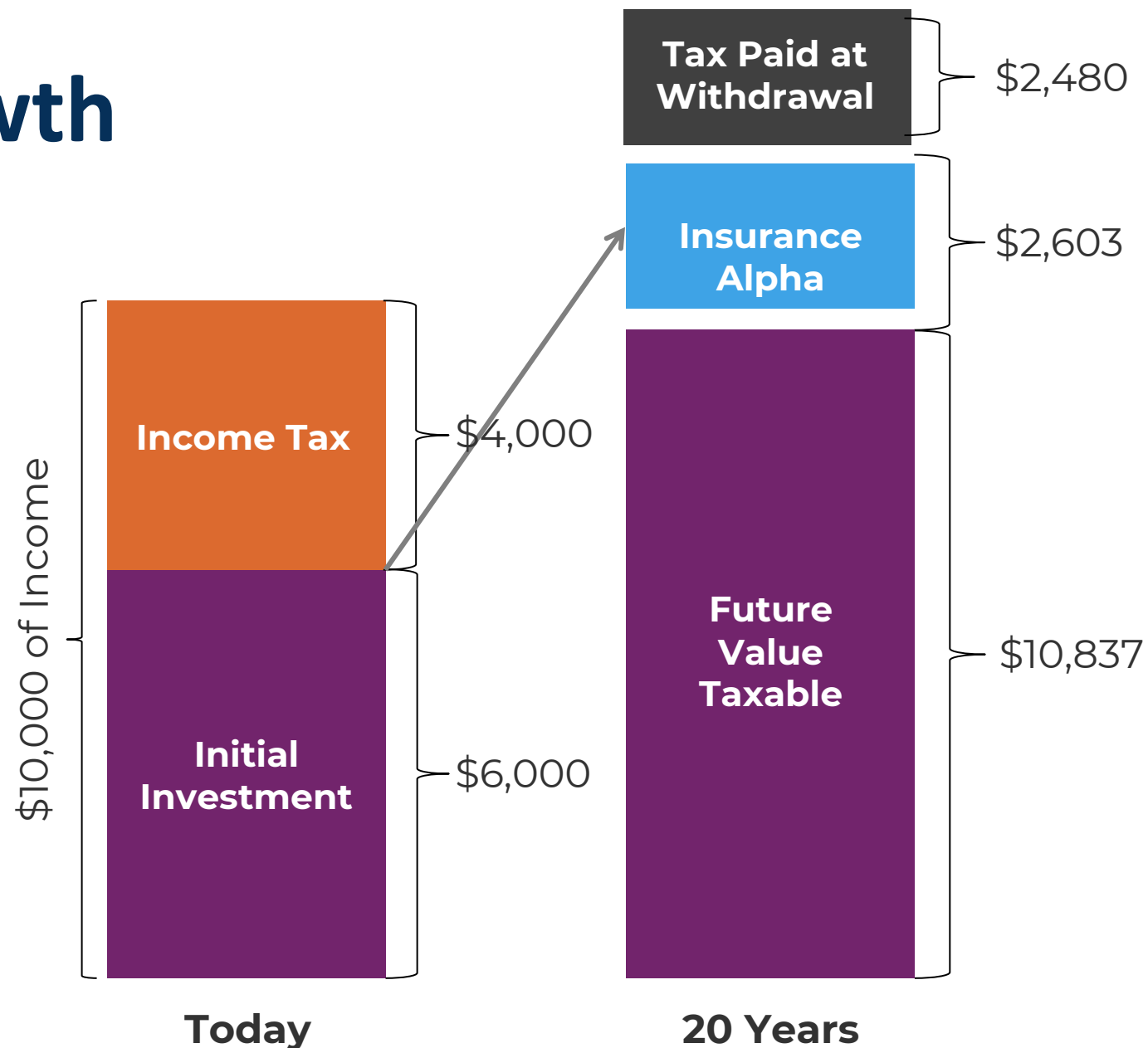
ANNUITY ADVANTAGE #2:

Tax Deferred Growth

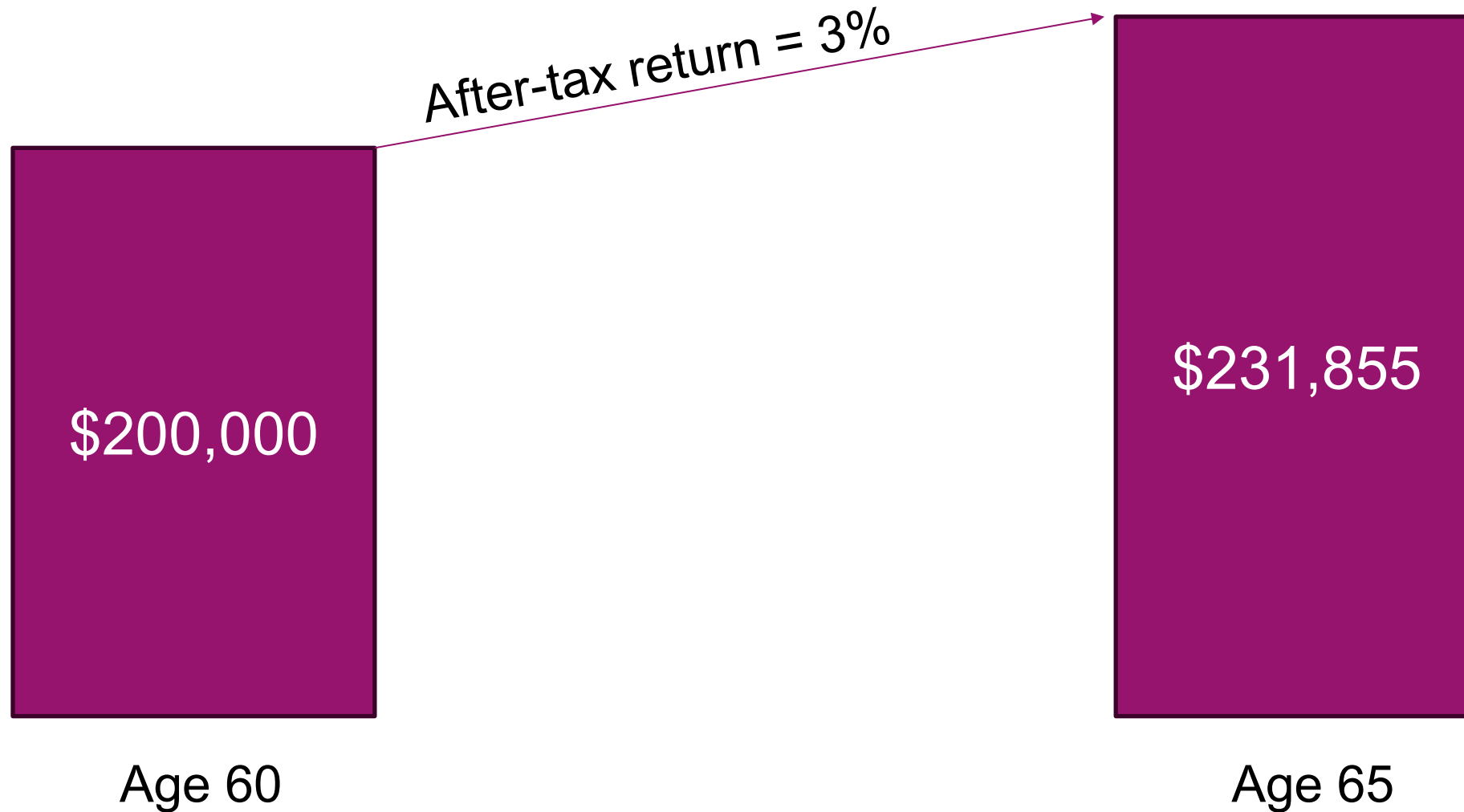
Withdraw at Lower Future
Tax Rate (**40%** today, **25%**
at retirement)

Gross Return = 5%
Net Return Bonds = **3%**
Net Return Annuity = **4.12%**

112 BP Improvement

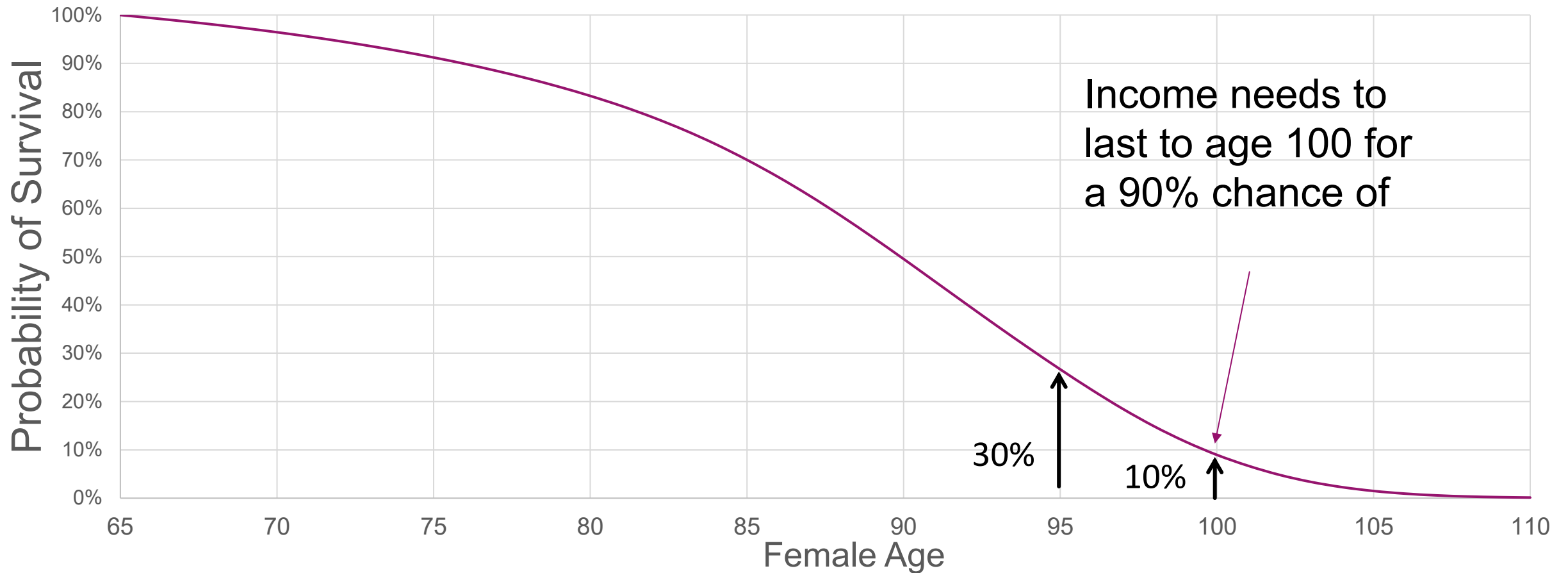


5-Year CD with Bonds at Retirement
40% combined state/federal marginal tax rate



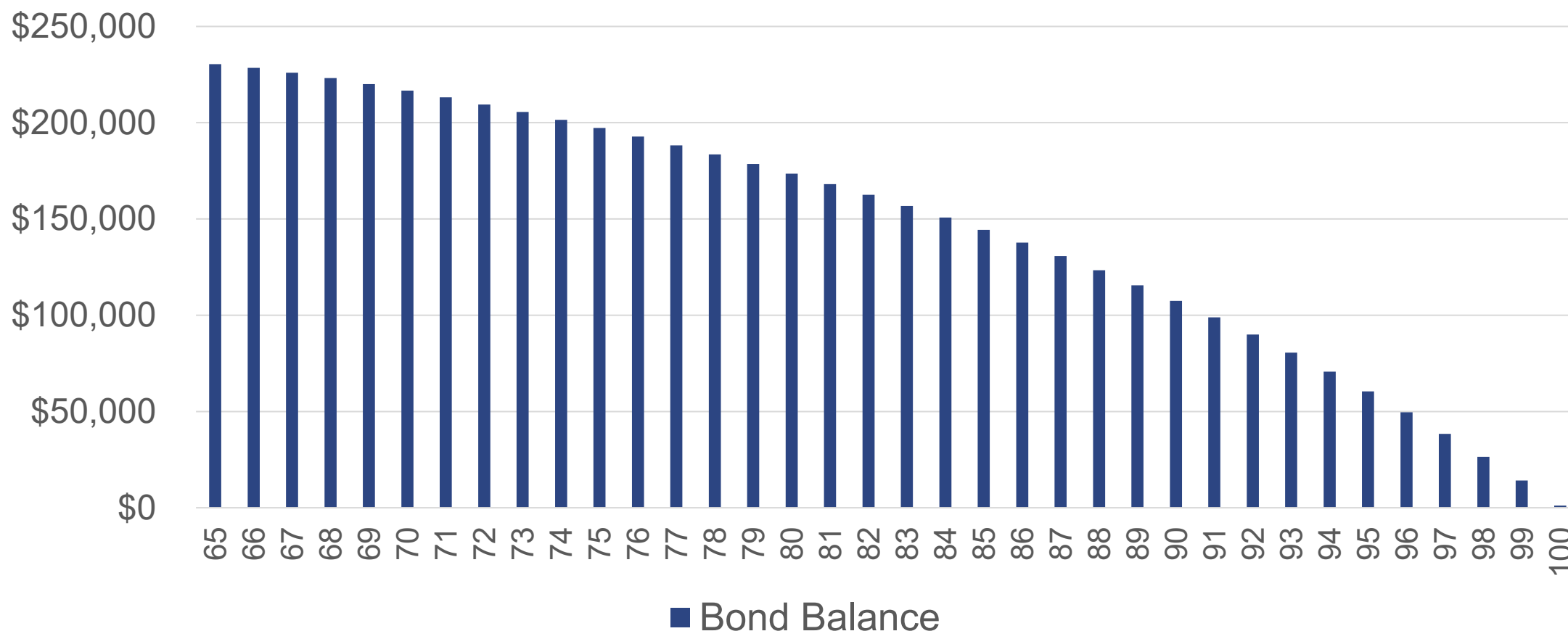
What is an acceptable failure rate?

Longevity of a 65-year old healthy woman, 2012 Society of Actuaries mortality table with improvement to 2024



\$231,855 at 65 can produce \$12,003 of income

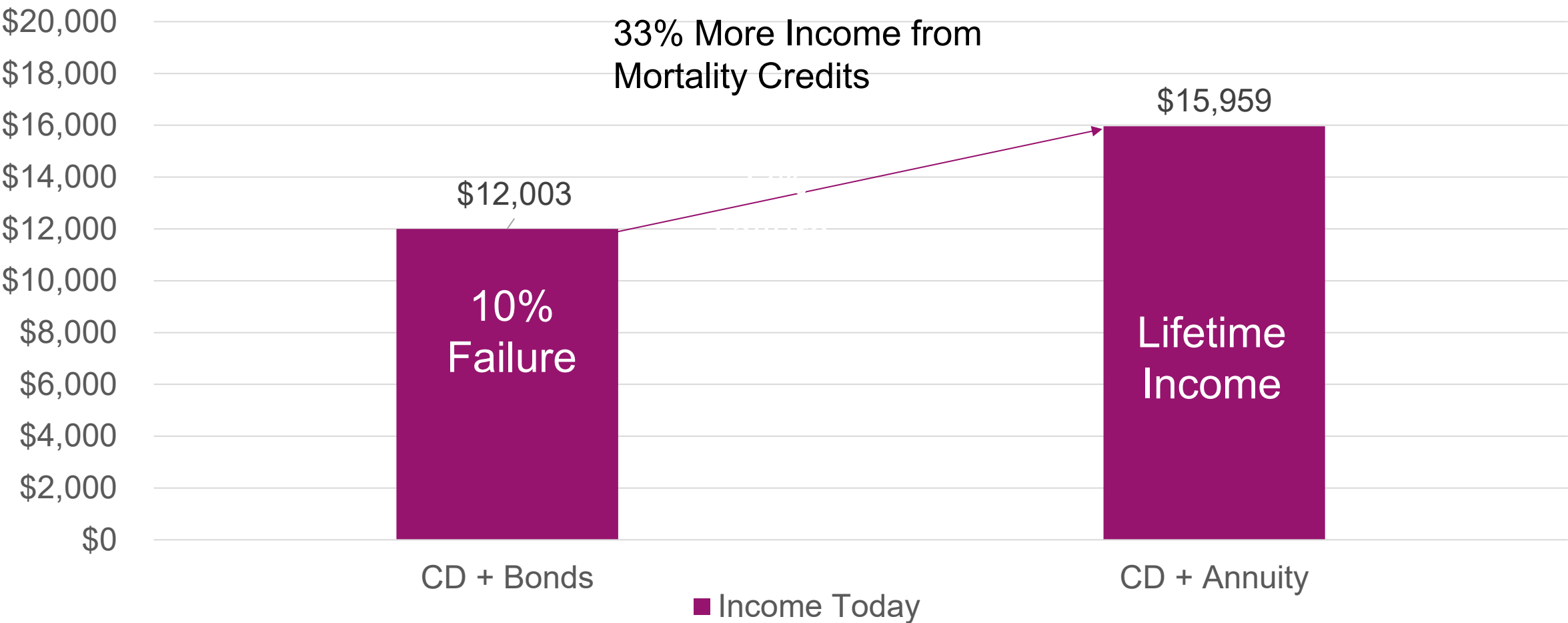
Treasury bond ladder at August 28, 2024 rates



The Retiree's Choice to Fund Safe Income

Invest in 5-year CD and buy bonds at 65 or

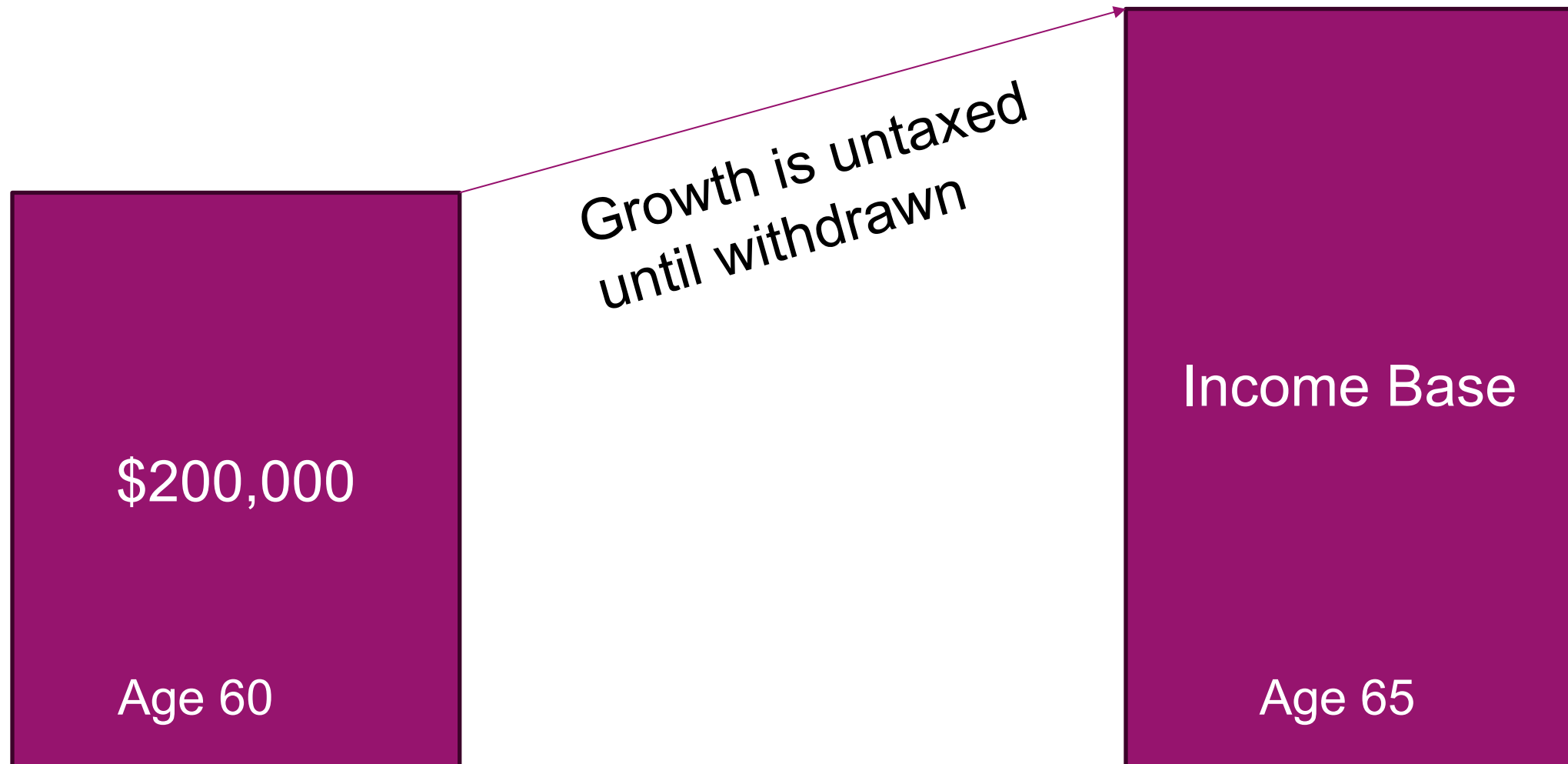
Purchase an income annuity with a 10-year period certain



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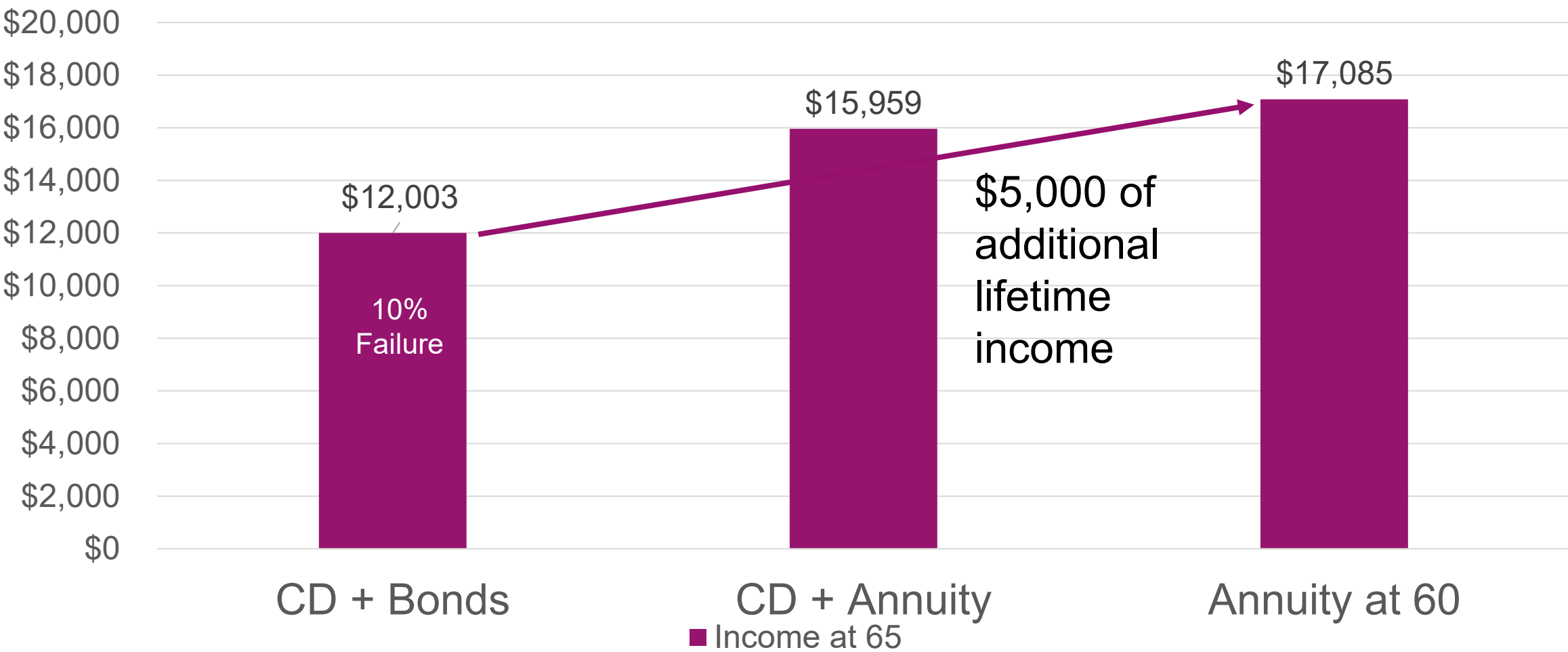
Source: Finke, 2024. Annuity Quotes for \$231,855 premium on October 4, 2024.

Option 3: Buy a Deferred Annuity at 60 with a GLWB



Option 3: Buy an Annuity with a Roll Up

Investment only vs. Investment + Annuity vs. Deferred Annuity



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Source: Finke, 2024. Annuity income from GLWB based on average from top 4 quotes on October 4, 2024.



Want to connect with this month's presenter?

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