



Retirement Researcher

---

RETIREMENT BEGINS WITH A PLAN™

# Determining Your Retirement Income Style

Presented by:

**Wade Pfau, Ph.D., CFA, RICP**

RetirementResearcher.com



# Overview

- Many viable retirement income strategies
- How do retirees choose?
- Underlying retirement income preferences
- Retirement income style awareness
- Linking retirement income styles to strategies and tools

# We understand that retirement is different



But it is still the  
Wild West in terms  
of retirement  
income strategies...





“Imagine how it would feel if you could sail through your retirement years, confident you’d done all you could do to have a worry-free income for life, regardless of the economic storms ahead... What I can do is show you how to *maximize your probability* of success, using the best research available... applied to historical financial scenarios to evaluate what you’re likely to experience during your retirement years.”



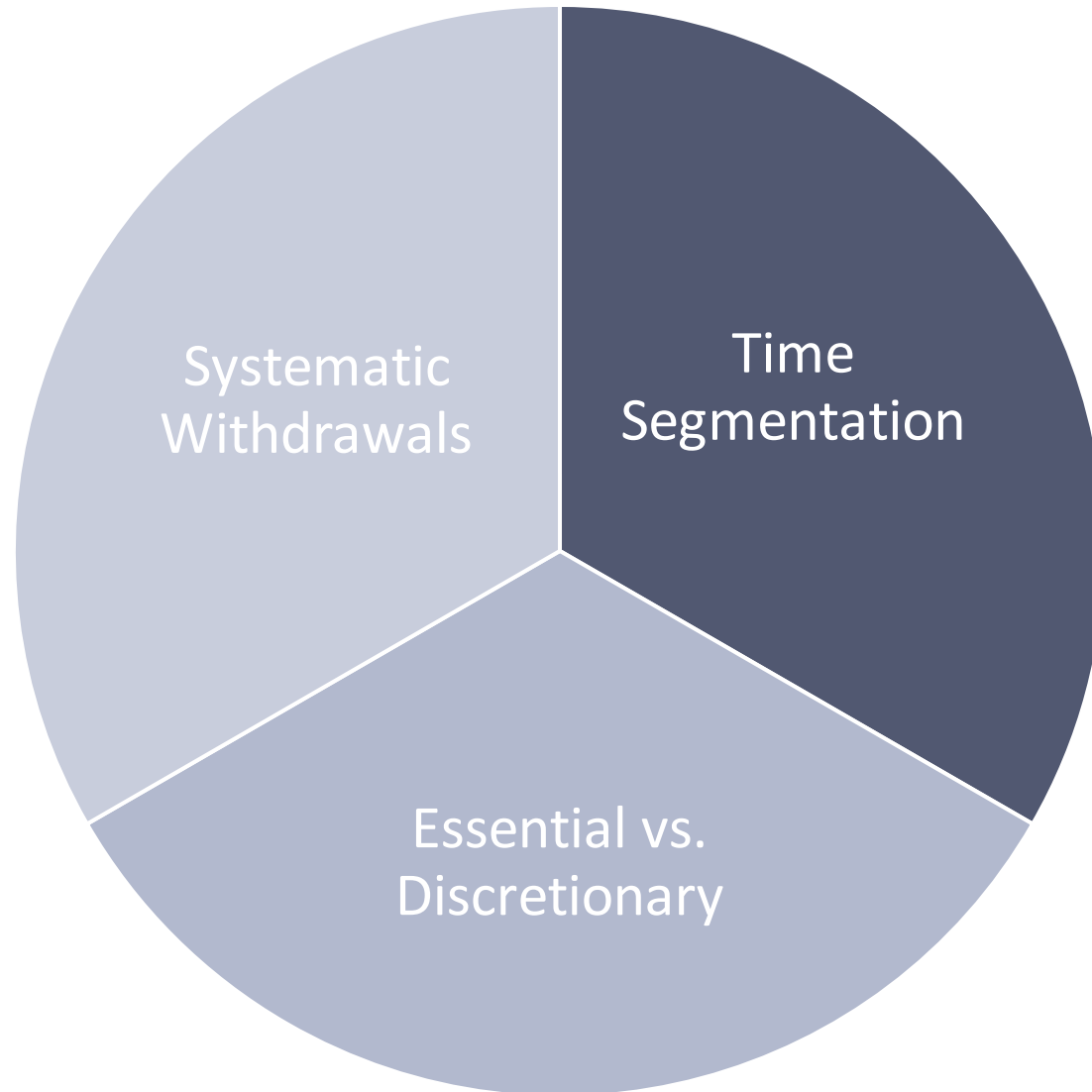
Randy Thurman  
*The All-Weather Retirement Portfolio*

“Just because something worked in a defined period sometime in the past does not necessarily mean it will work in the future. Basing your retirement investment strategy on the myth that stocks always go up over the “long term” seems a little like shooting craps to me. You may not have long enough to wait for the long-term returns that Wall Street promises.”



Erin Botsford  
*The Big Retirement Risk*

# Financial Planning Association - Taxonomy



# A Broader List of Strategies

**Exhibit 1.5**

Retirement Income Strategies		
Probability-Based Approaches		
Total Returns / Constant Spending	Total Returns / Variable Spending	Time Segmentation
Safe Withdrawal Rates <i>(W. Bengen, Trinity Study, M. Kitces)</i>	Fixed Percentage Withdrawals <i>(W. Bengen)</i>	Age Banding <i>(S. Basu)</i>
Safe Savings Rates <i>(W. Pfau, InStream)</i>	Desired and Maximum Distribution with Spending Rules <i>(InStream)</i>	Asset Dedication <i>(J. Burns; S. Huxley)</i>
Cash Flow Management <i>(H. Evensky, D. Katz)</i>	Decision Rules and Guardrails <i>(J. Guyton, W. Klinger)</i>	Income Discovery <i>(M. Malhotra)</i>
Rising Equity Glide path <i>(M. Kitces, W. Pfau)</i>	Floor and Ceiling <i>(W. Bengen)</i>	Wealth 2K (D. Macchia)
	IRS RMD Rule <i>(A. Webb, W. Sun)</i>	
	PMT Formula <i>(D. Blanchett, L. Frank, J. Mitchell, M. Waring, L. Stegel)</i>	
	Target Percentage Adjustment <i>(D. Zolt)</i>	
	Endowment Spending Policies	
	Actuarial Approach <i>(K. Steiner)</i>	

Safety-First Approaches		
Utility Maximization / Dynamic Programming	Locked-In (Lifetime) Flooring	At-Risk Flooring
Product Allocation and Efficient Frontiers <i>(M. Milevsky, P. Chen, Morningstar, M. Warshawsky, W. Pfau)</i>		
Bequest Value vs. Shortfall Value <i>(J. Tomlinson)</i>	Dimensional Managed DC <i>(R. Merton, Z. Bodie)</i>	R-MAP <i>(M. Lanter)</i>
Spending on the Planet Vulcan <i>(M. Milevsky and H. Huang)</i>	Household Balance Sheet Management <i>(M. Zwecher, RIIA)</i>	
Lifecycle Finance <i>(P. Samuelson, R. Merton, Z. Bodie, L. Kotlikoff)</i>	Modern Retirement Theory <i>(J. Branning, M. Ray Grubbs)</i>	Funded Ratio Management <i>(Russell Investments)</i>
Financial Guidance Theory <i>(H. Markowitz)</i>	Safety-First Goals-Based Approach <i>(Z. Bodie, R. Taqqu)</i>	
ESPlanner <i>(L. Kotlikoff)</i>	TIPS & Deferred Income Annuities <i>(S. Gowri Shankar, S. Sexauer et al.)</i>	
Financial Engines <i>(W. Sharpe, J. Scott, J. Watson)</i>	Floor-Leverage Rule <i>(J. Scott, J. Watson)</i>	
Dynamically Adapting Asset Allocation and Withdrawal Rates <i>(J.P. Morgan)</i>	Thrive Distribution <i>(C. Cloke)</i>	
Asset Allocation Calculator <i>(G. Irlam)</i>	Liability Matching Portfolios <i>(W. Bernstein)</i>	





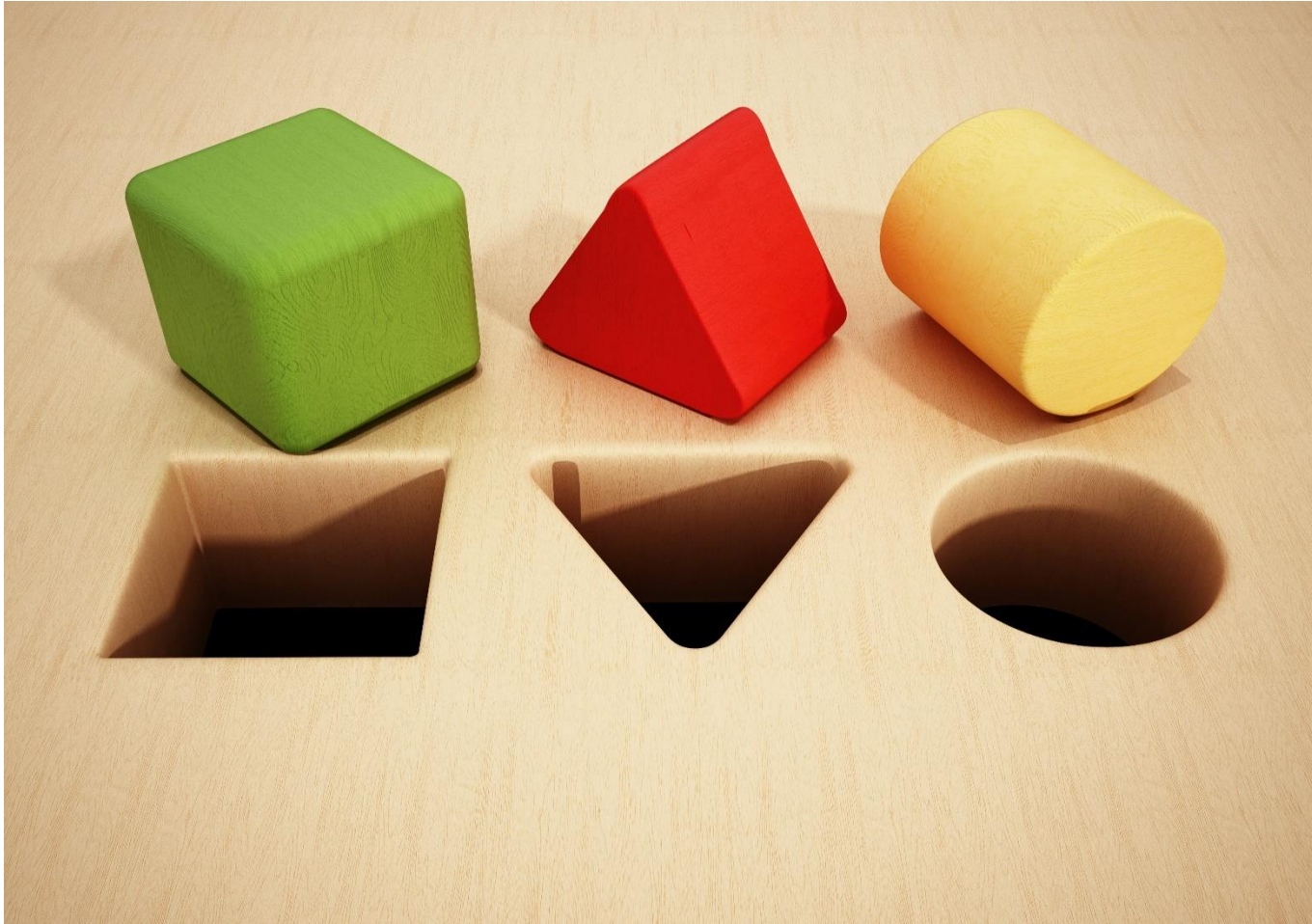
How do retirees  
choose from the  
possibilities?

# How do retirees choose a strategy?

- Listen to a radio show
- Read a personal finance blog
- Follow the personal finance consumer media
- Attend a seminar
- Attend a local class
- Work with a financial advisor

Retirees end up  
filtering strategies  
based the personal  
preferences of  
others





It can be hard  
to match up  
your style

[Download This Paper](#)[Open PDF in Browser](#)[Add Paper to My Library](#)[Revise My Submission](#) 

## A Model Approach to Selecting a Personalized Retirement Income Strategy

31 Pages • Posted: 24 Mar 2021

[Alejandro Murguia](#)

Retirement Researcher; McLean Asset Management

[Wade D. Pfau](#)

The American College for Financial Services; Retirement Researcher

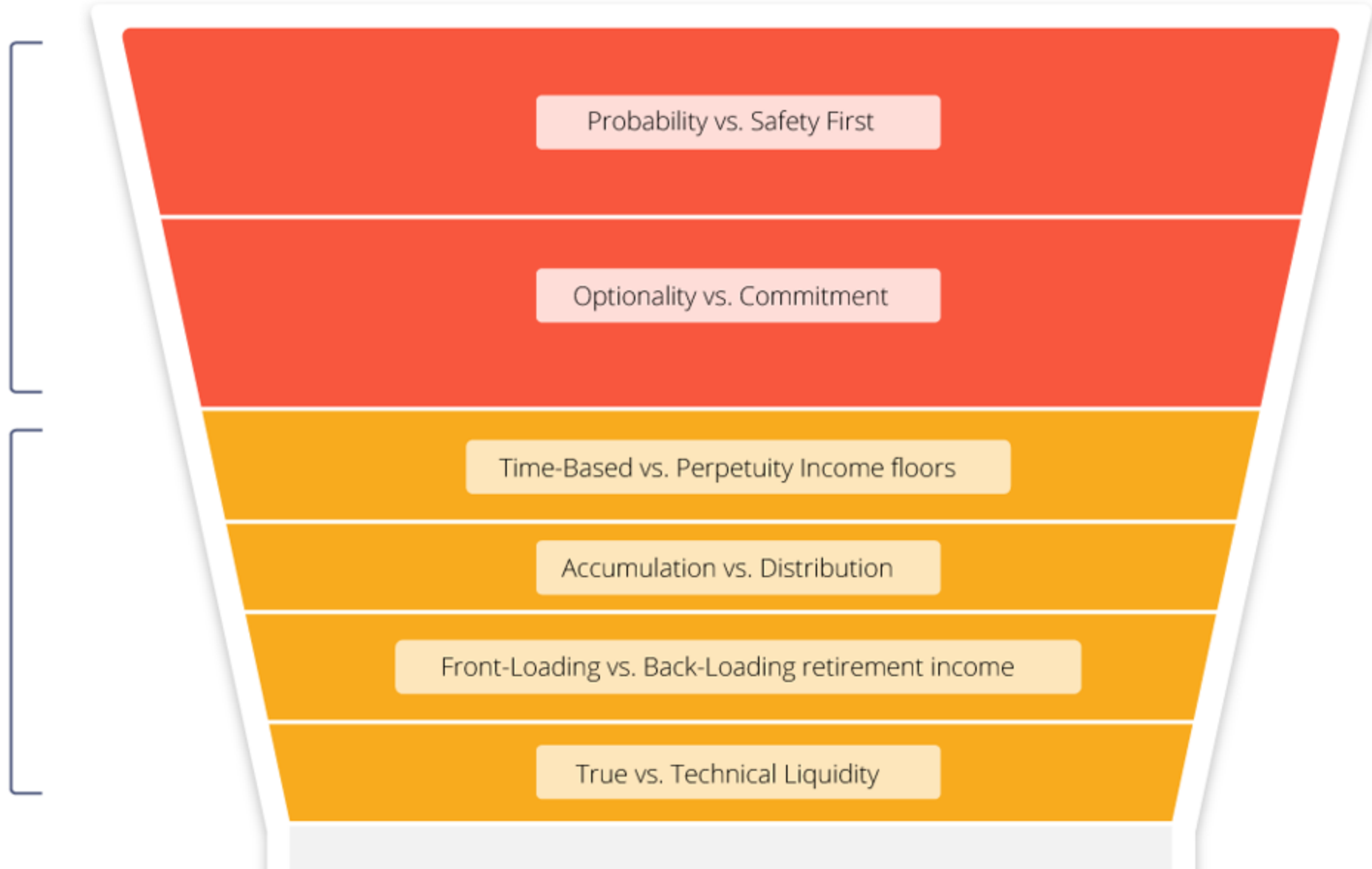
Date Written: January 1, 2021

### **Abstract**

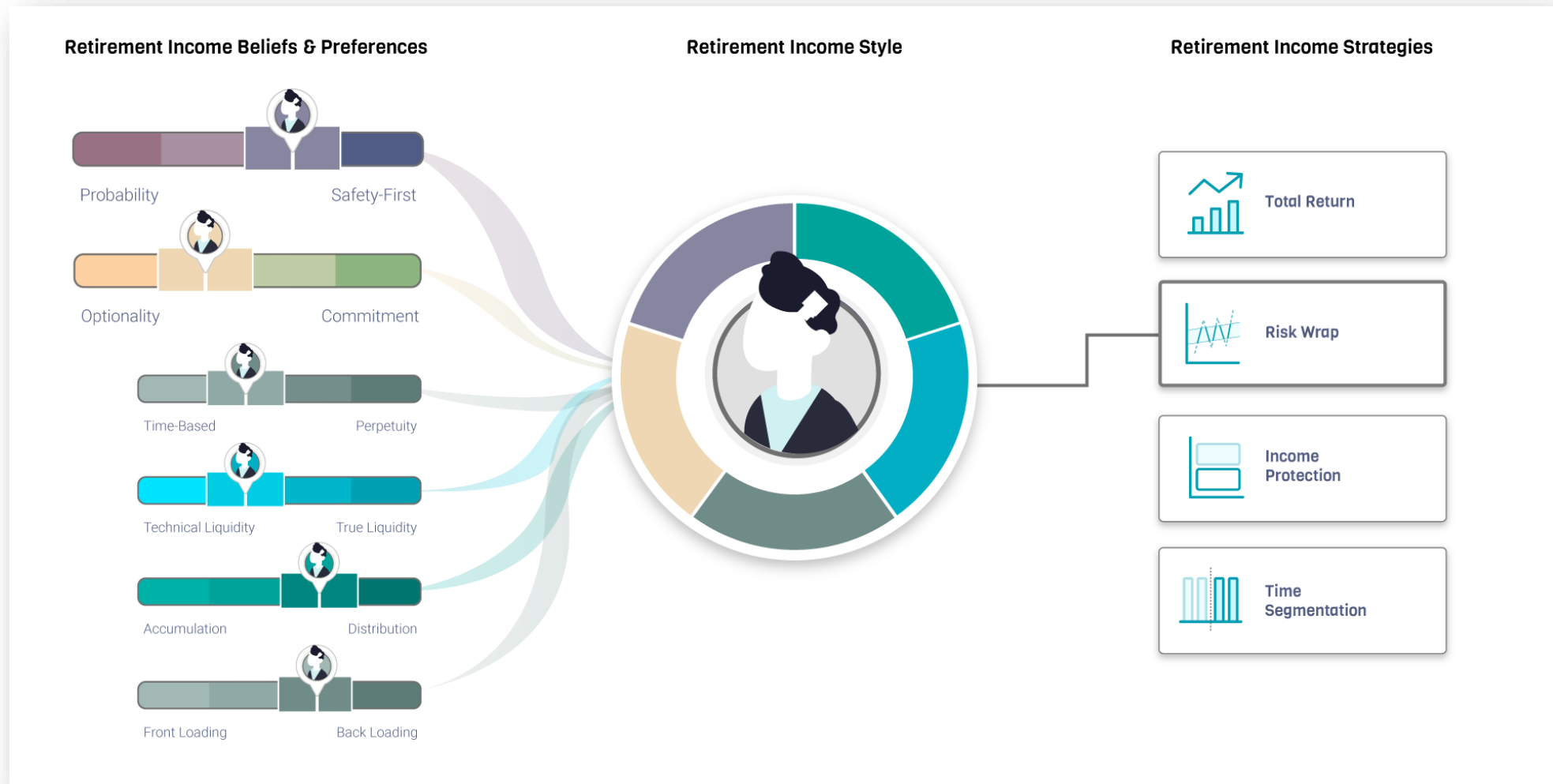
This study identifies and validates a set of scorable retirement income factors to define preferences for an overall retirement income style. This investigation further attempts to create a workable model for retirement income planning by showing how the factors connect to four main retirement income strategies: systematic withdrawals with total return investing, risk wrap with deferred annuities, protected income with immediate annuities, and time segmentation or bucketing. Approaching retirement income agnostically and matching retirement income strategies based on an individual's personal retirement income style may lead to improved outcomes that achieve greater “buy in” and comfort.

Murguia, Alejandro and Pfau, Wade D., “A Model Approach to Selecting a Personalized Retirement Income Strategy.” (January 1, 2021). Available at the Social Science Research Network: <https://ssrn.com/abstract=3788232>

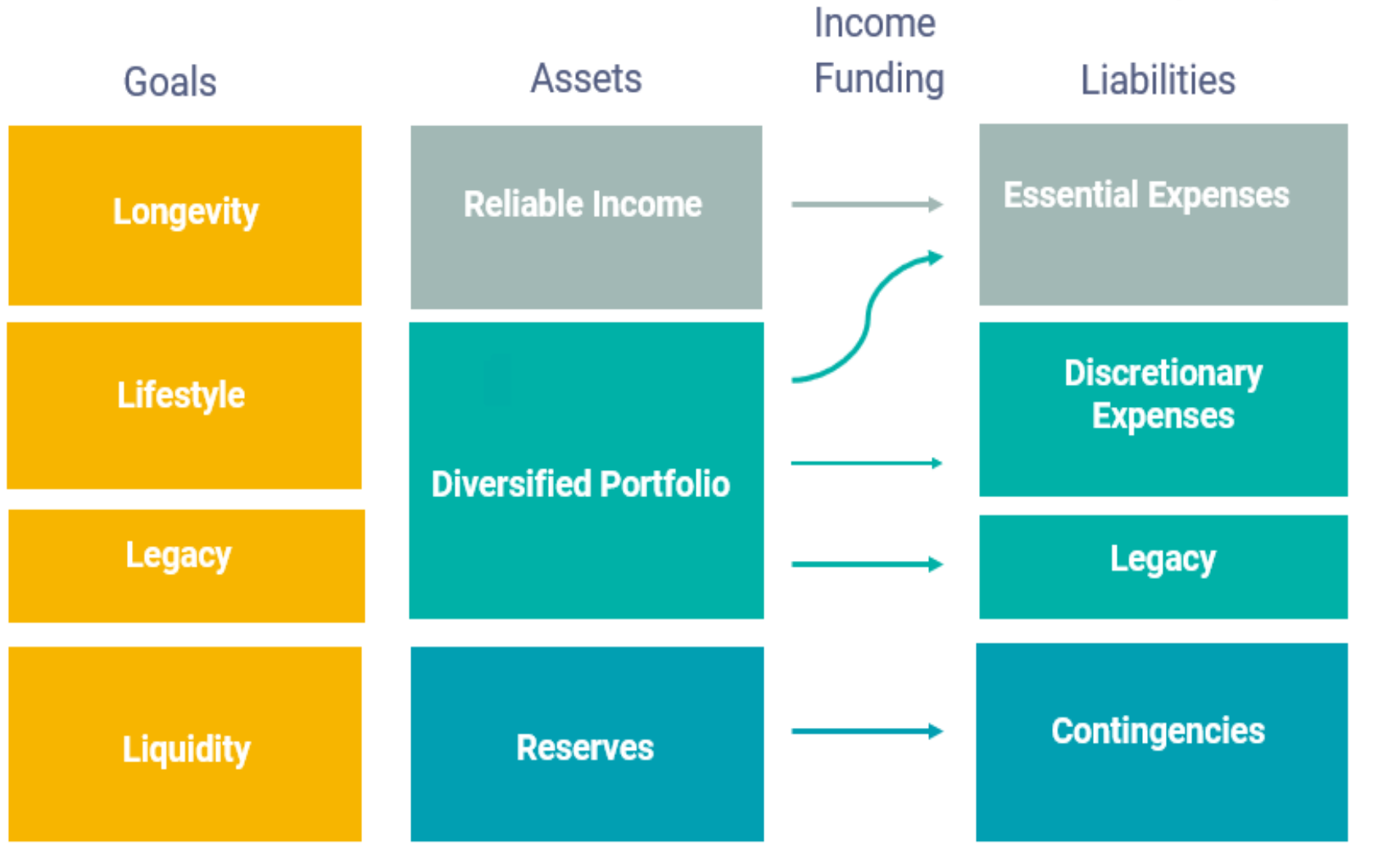
# Retirement Income Factors



# Your style leads to specific strategies

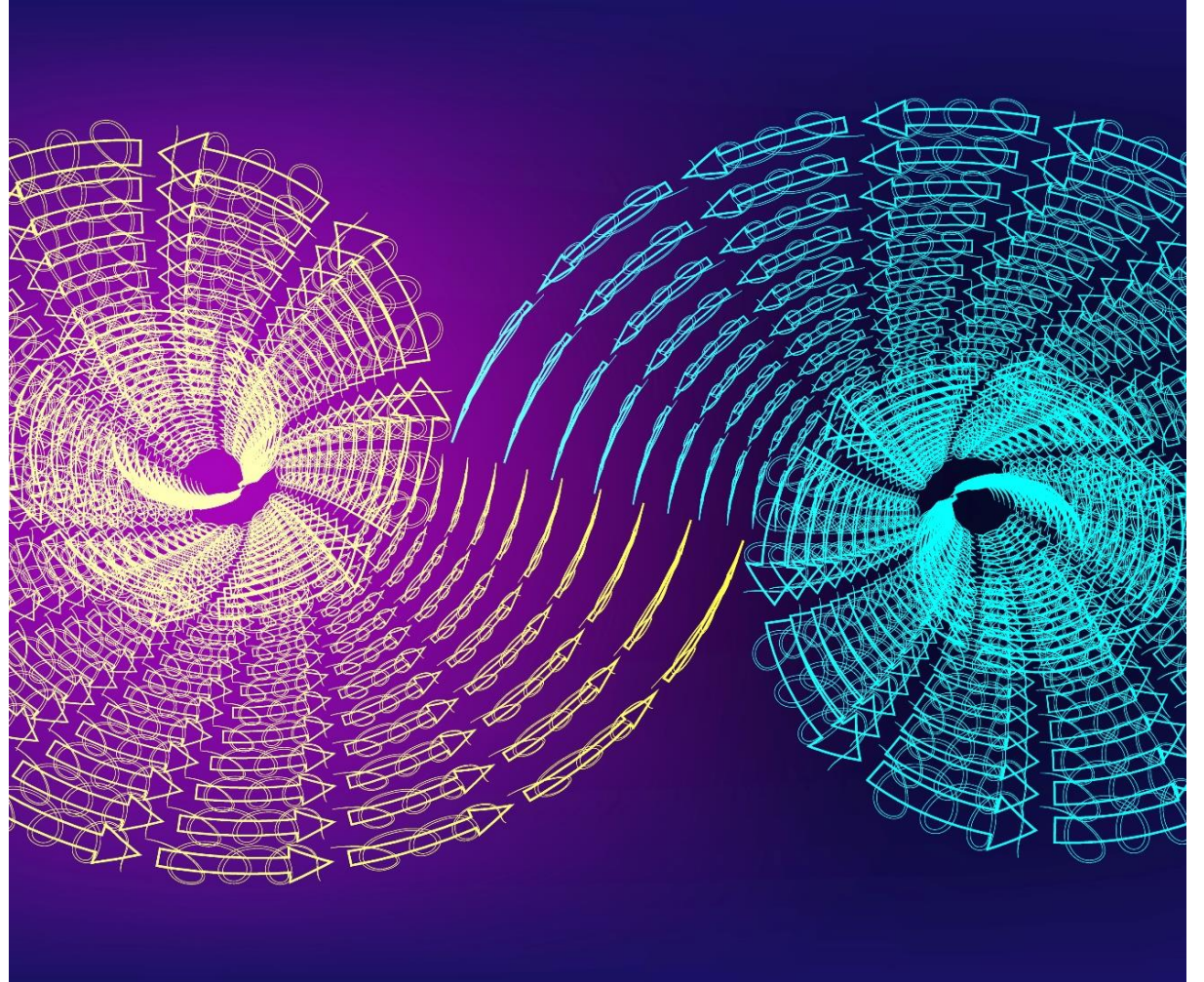


## Retirement Income Optimization™ Map (RIO)





# Probability 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

# Retirement Income Style Awareness<sup>®</sup> Matrix



# 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?

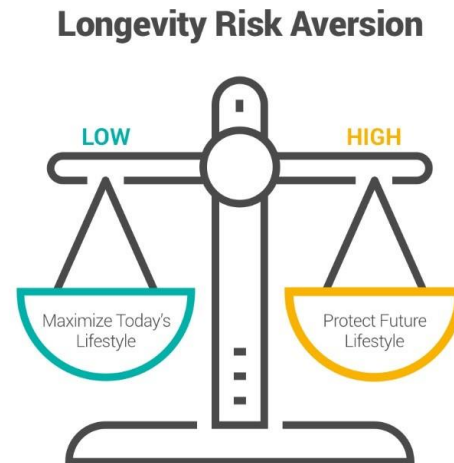
Front-Load



Back-Load

Spend more today  
when you are assured  
of life and health

Spend less today to  
better protect future  
lifestyle









# Retirement Income Strategies

## Total Return Approach

Probability-Based  
Optionality-Oriented  
Accumulation  
Time-Based Floor  
Front-Loading  
Technical Liquidity



# Retirement Income Strategies

## Protected Income

Safety-First  
Commitment-Oriented  
Distribution  
Perpetuity-Based Floor  
Back-Loading  
True Liquidity



# Retirement Income Strategies

## Risk Wrap

Probability-Based  
Commitment-Oriented

Back-Loading  
Technical Liquidity



# Retirement Income Strategies

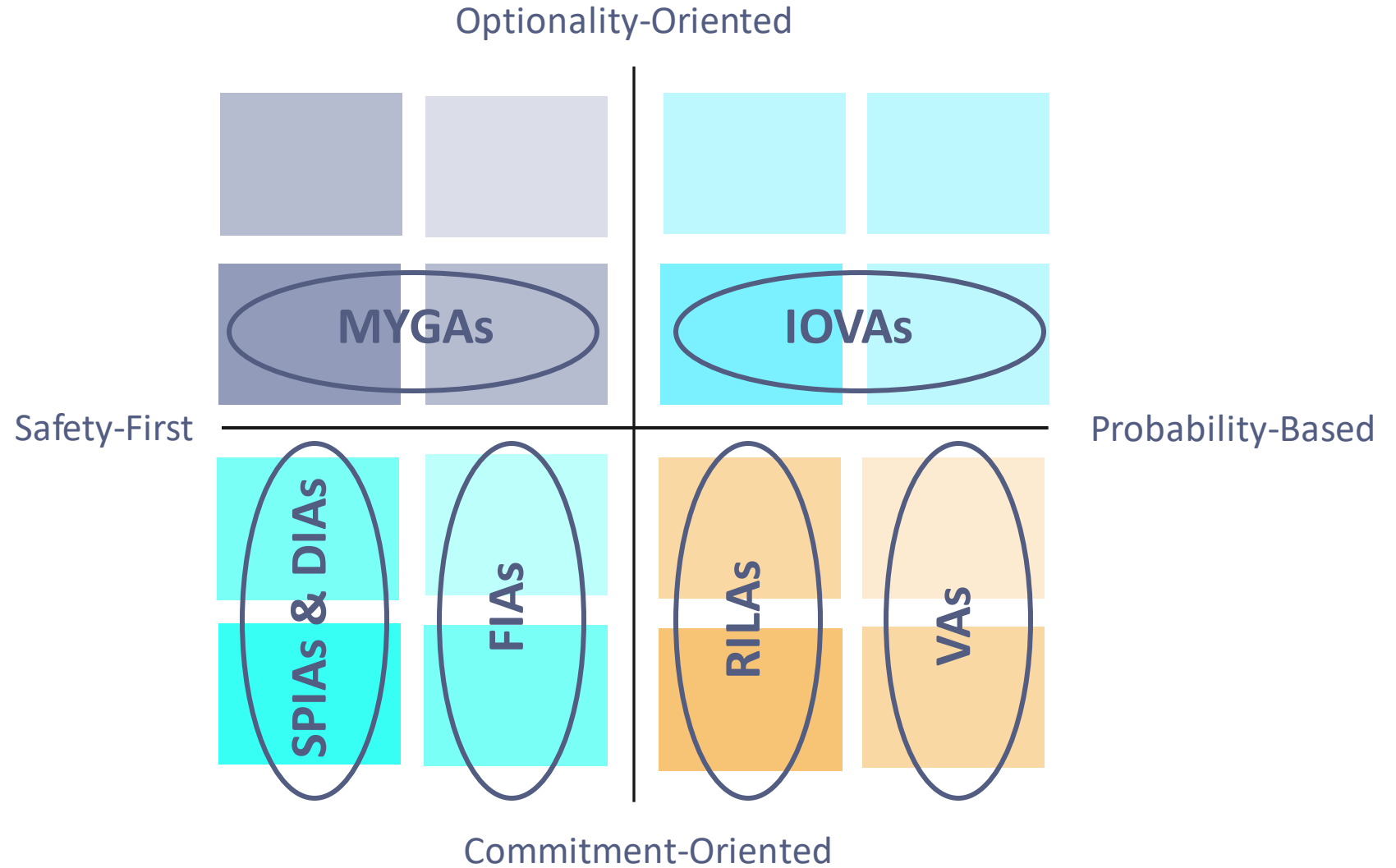
## Time Segmentation

Safety-First  
Optionality-Oriented

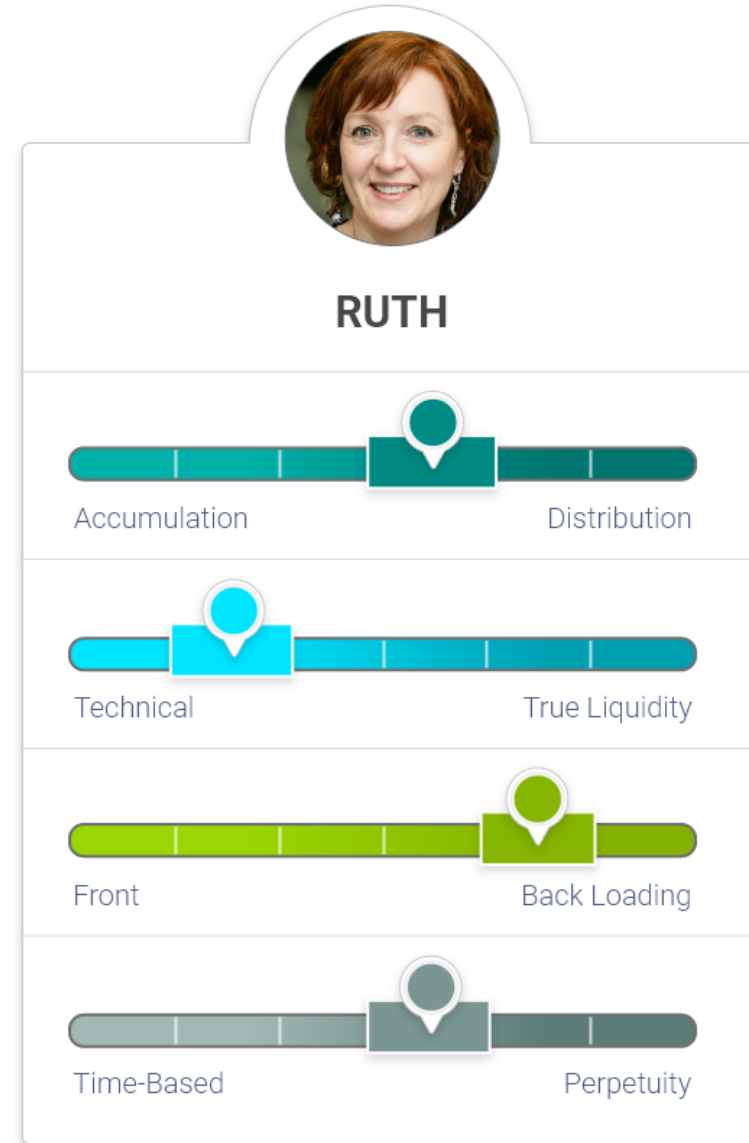
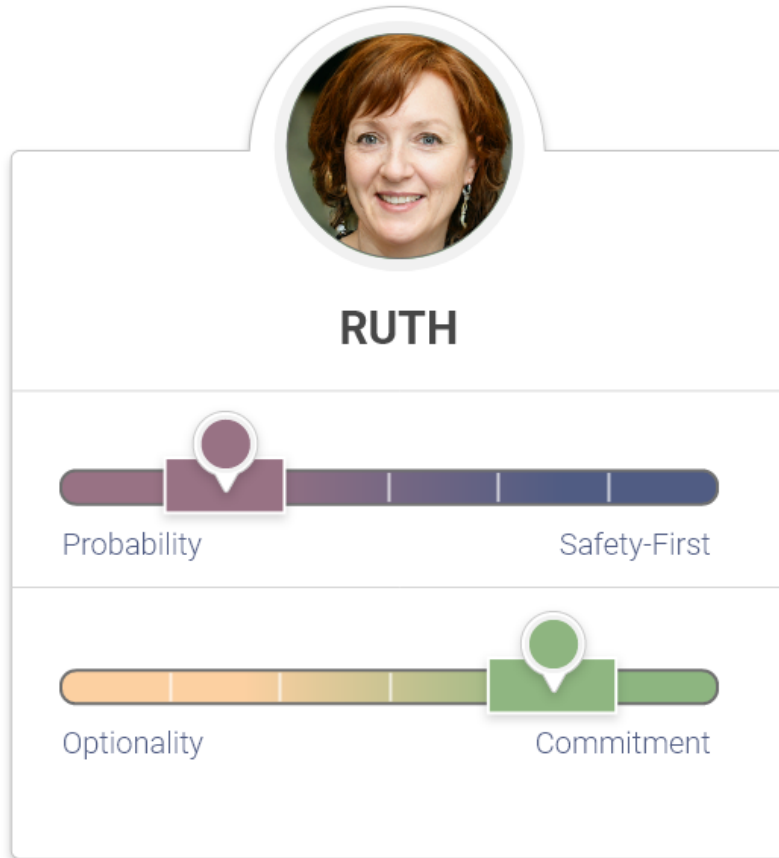
Front-Loading  
True Liquidity



# Style Matrix – Role for Annuities

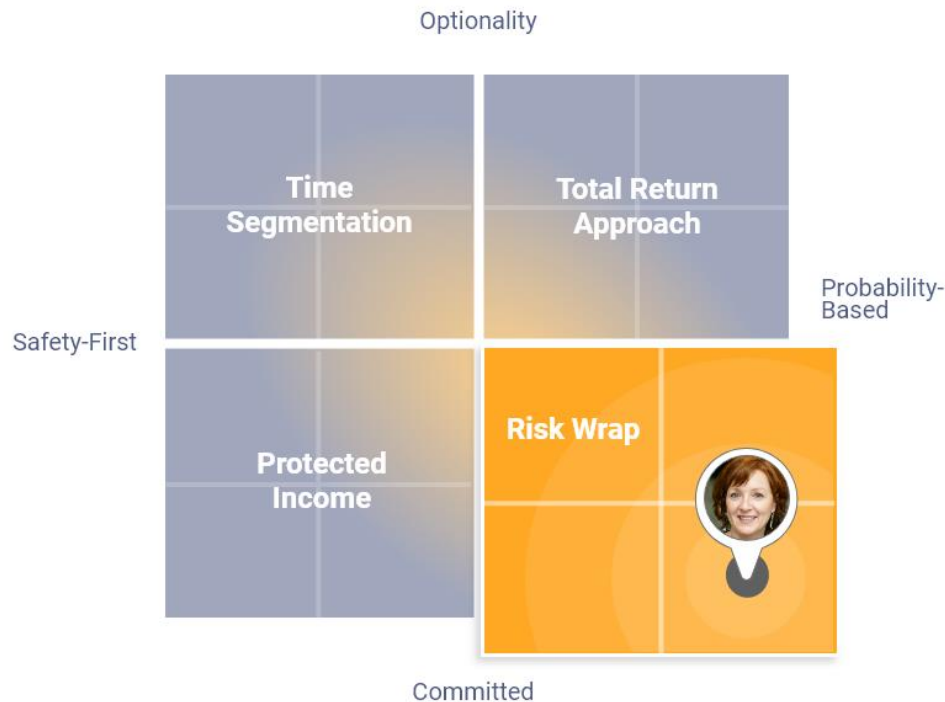


# Case Study - Ruth





# Case Study – Ruth’s Style is Risk Wrap



- Ruth believes that market growth is needed to accomplish longer-term retirement goals
- But she doesn't want to be overly dependent on the stock market
- She wants a way to automate her income throughout her retirement and have a solution in place in case the markets turn sideways
- With low interest rates, she also realizes that the traditional allocation to bonds for retirement income may not provide enough protection
- She is considering different sources of steady income, which would allow the stock portion of her portfolio to remain aggressively invested

# Conclusions

- There are multiple viable approaches for retirement income
- The “right” approach for someone depends on their personal style
- Style factors identify starting point for strategy discussion
- Advisors should understand their personal style, how it impacts advice, and how to recognize whether firm offerings are aligned with the client’s style



# THANK YOU! ANY QUESTIONS?

wade@retirementresearcher.com

@WadePfau (Twitter)

---

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

# Disclosures

This material is being provided for informational or educational purposes only and does not take into account the investment objectives or financial situation of any clients or prospective clients. The information is not intended as investment advice and is not a recommendation about managing or investing a client's retirement savings. Clients seeking information regarding their particular investment needs should contact a financial professional.

Provided courtesy of Pruco Life Insurance Company (in New York, Pruco Life Insurance Company of New Jersey), Newark, NJ (main office), and Prudential Annuities Distributors, Inc., Shelton, CT, all Prudential Financial companies solely responsible for their own financial condition and contractual obligations. The views expressed are those of the author(s) and presenter(s) (which are not affiliated with any of the Prudential Financial companies), are subject to change, and do not necessarily reflect the views of the Prudential Financial companies.