



My World and Welcome to It

Robert Powell, CFP®

The 16th Annual FPA of Miami Symposium

Wednesday, November 10, 2021

9 am – 10 am



Disclosure

- This lecture does constitute accounting, tax or legal advice. Best you seek the advice of your own accounting, tax and/or legal advisor(s) prior to making any decision concerning the subject matter disclosed. The views and representations provided herein are solely those of the author.





Agenda

- About Bob
- The State of Affairs
- My World and Welcome to It
- Where to Begin?
- The Process of Building a Retirement-Income Plan
- Q&A

About

- Financial journalist since 1986
- Editor, TFIN's RetirementInvestor.io & Wealth+
- Co-founder, finStream.tv
- Editor & Publisher, TheStreet's Retirement Daily
- Columnist, Retirement, USA Today & MarketWatch
- Editor, IWI's Retirement Management Journal/Host Exceptional Advisor podcast
- Instructor, Salem State Univ. Online Elder Planning Specialist Program
- Host, Callaway Climate Insights podcast



**Retirement
Daily** | On
TheStreet

finStream

About




[← The Latest](#)

RTDNA and NEFE Announce 2021 Excellence in Personal Finance Reporting Award Winners

September 15, 2021



A clear glass filled with water, sitting on a white surface. The glass is partially filled, and the water level is visible. The background is a soft, out-of-focus white and light blue gradient.

The State of Affairs: Retirement Crisis or Not

Crisis...

C E N T E R *for*
RETIREMENT
RESEARCH
at **BOSTON COLLEGE**

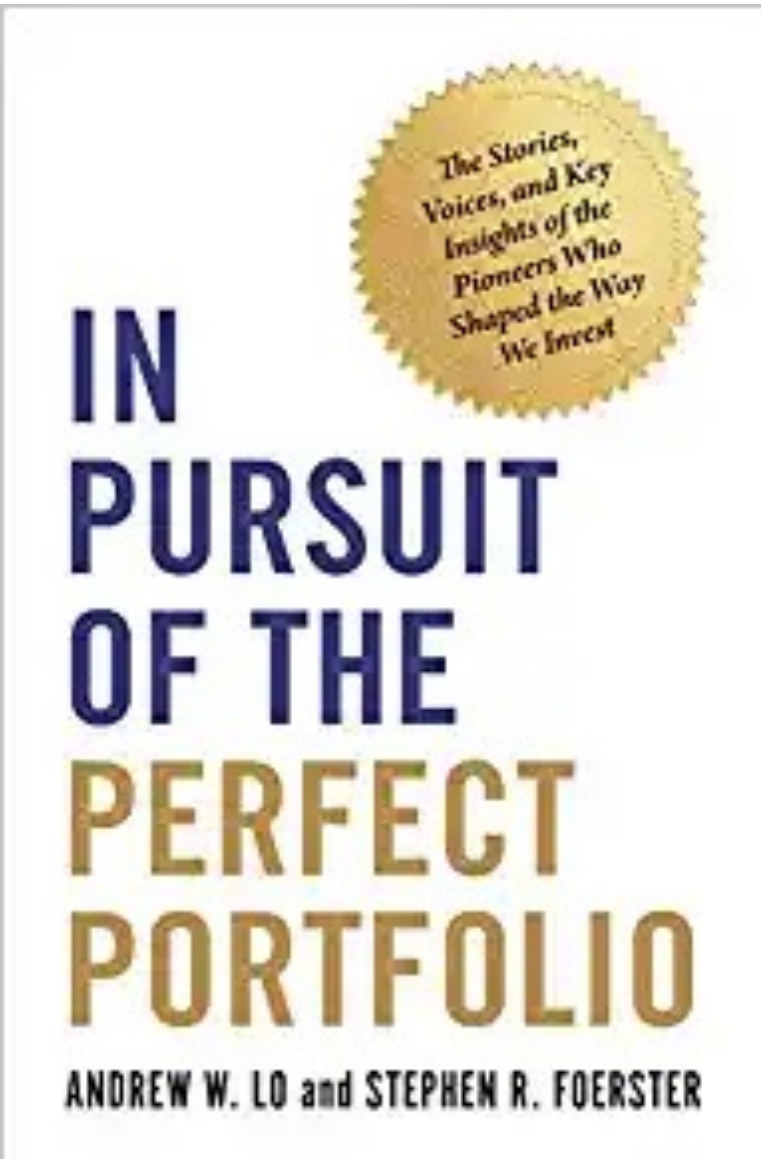
- 50 percent of households are “at risk” of not having enough to maintain their living standards in retirement.
- Explicitly including health care in the Index further drives up the share of households “at risk.”



Or Not

The phony retirement crisis: Contrary to the alarms, household savings are growing.



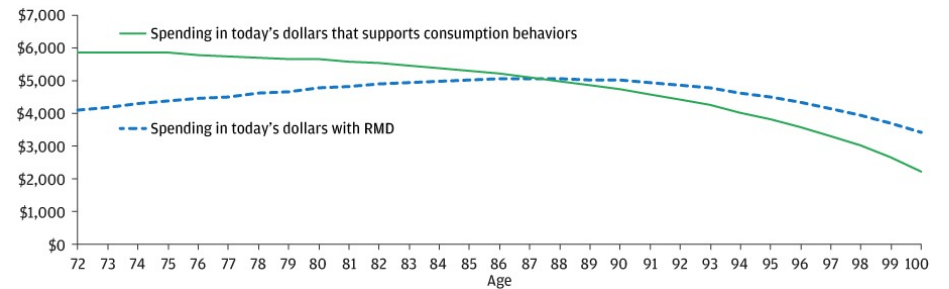
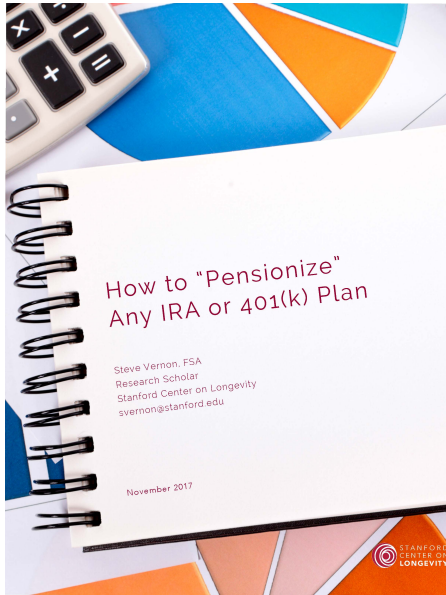


**IN
PURSUIT
OF THE
PERFECT
PORTFOLIO**

ANDREW W. LO and STEPHEN R. FOERSTER

Complicated, Confusing and Contradictory

- Profile and interview 10 of the most prominent figures in the finance world—Jack Bogle, Charley Ellis, Gene Fama, Marty Leibowitz, Harry Markowitz, Bob Merton, Myron Scholes, Bill Sharpe, Bob Shiller, and Jeremy Siegel.
- 10 experts – 10 different portfolios



Complicated,
Confusing and
Contradictory

- The RMD approach is inefficient. It does not generate income that supports retirees' & declining spending behavior and may leave a sizable account balance at age 100.
 - JP Morgan/EBRI

Complicated, Confusing and Contradictory

RETIREMENT MANAGEMENT JOURNAL

A reprinted article from Volume 9, Number 1, 2020

Odds Are Retirees Don't Care
About the Odds

By James B. Sandidge, JD

Monte Carlo is wildly inaccurate in its predictions of how long a retiree's savings are likely to last and employs a methodology that is the opposite of what retirees want. Eliminating it from conversations should lead to safer, simpler, and more personalized retirement-income portfolios for investors and help advisors create a brand of original thinking.

**Why 50% Probability Of Success Is
Actually A Viable Monte Carlo
Retirement Projection**

Complicated, Confusing and Contradictory

Reducing Retirement Risk with a [Rising Equity Glide-Path](#)

19 Pages • Posted: 13 Sep 2013

[Wade D. Pfau](#)

The American College for Financial Services; Retirement Researcher

[Michael Kitces](#)

The Kitces Report & Nerd's Eye View; Pinnacle Advisory Group

Date Written: September 12, 2013

Abstract

This study explores the issue of what is an appropriate default [equity glide-path](#) for client portfolios during the retirement phase of the life cycle. We find, surprisingly, that [rising equity glide](#)-paths in retirement – where the portfolio starts out conservative and becomes more aggressive through the retirement time horizon – have the potential to actually reduce both the probability of failure and the magnitude of failure for client portfolios. This result may appear counter-intuitive from the traditional perspective, which is that [equity](#) exposure should decrease throughout retirement as the retiree's time horizon (and life expectancy) shrinks and mortality looms. Yet the conclusion is actually entirely logical when viewed from the perspective of what scenarios cause a client's retirement to “fail” in the first place. In scenarios that threaten retirement sustainability – e.g., an extended period of poor returns in the first half of retirement – a declining [equity](#) exposure over time will lead the retiree to have the least in stocks if/when the good returns finally show up in the second half of retirement (assuming the entire retirement period does not experience continuing poor returns). With a [rising equity glide-path](#), the retiree is less exposed to losses when most vulnerable in early retirement and the [equity](#) exposure is greater by the time subsequent good returns finally show up. In turn, this helps to sustain greater retirement income over the entire time period. Conversely, using a [rising equity glide-path](#) in scenarios where [equity](#) returns are good early on, the retiree is so far ahead that their subsequent asset allocation choices do not impact the chances to achieve the original retirement goal.

Investing for Retirement Income: A Comparison of Asset Allocations and Spending Strategies

38 Pages • Posted: 6 Jul 2021

[Mathieu Pellerin](#)

Dimensional Fund Advisors

Date Written: July 7, 2021

Abstract

We study the performance of different investment and spending strategies for retirement. Investment strategies include wealth-focused glide paths that combine equities with short-term, high-quality fixed income. We also consider an income-focused glide path that combines a moderate equity allocation at retirement and an inflation-protected bond portfolio that uses liability-driven investing. Spending rules include fixed spending (similar to the 4% rule), flexible spending, as well as nominal and real annuitization. We examine simulated lifetimes with either stochastic longevity or fixed longevity of 30 years in retirement.

We find that, for all spending strategies, an income-focused asset allocation delivers similar retirement income to the wealth-focused allocations we study while offering better protection against market, interest rate, and inflation risk. We also find that a glide path with an LDI portfolio offers a better tradeoff between income growth and income risk management. Finally, our results suggest that high equity exposure in retirement is an inadequate tool to manage longevity risk.

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Robert Powell's Retirement Portfolio

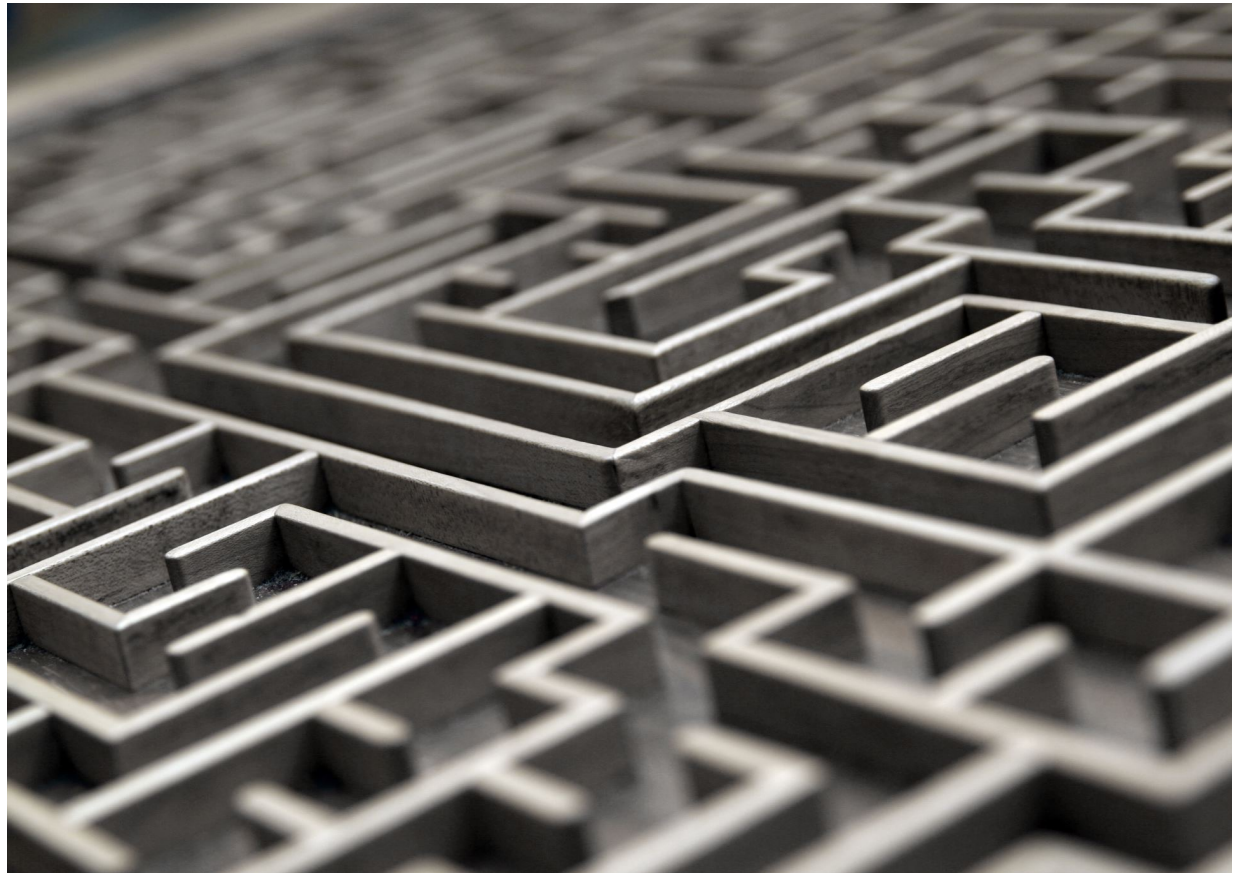
How can I make sure that the money I've saved will last my whole retirement?

Published: Aug. 19, 2021 at 7:03 a.m. ET

By Robert Powell [Follow](#)

Retirement Daily

Where to
begin?



Real Science versus Junk Science

- The life-cycle hypothesis (LCH) is an economic theory that describes the spending and saving habits of people over the course of a lifetime. The concept was developed by Franco Modigliani and his student Richard Brumberg in the early 1950s.

- Basis for RMA.





Why start there?

- Better than starting with a job task analysis...
 - What you do becomes the basis for what you are tested on.
- Traditional financial planning education is lagging behind academic research that could be translated into curriculums and practices.
 - Important to separate true research from funded research
- Mindful of how other professionals are trained such as M.D.s

No best practices

- What a household gets depends on the silo: adviser registrations, education, firm, comp model.
 - 35% of advisers use the floor-and-upside method,
 - 40% use systematic withdrawals from a diversified portfolio,
 - a quarter use a pool or bucket approach.
 - Practical Perspectives and GDC Research

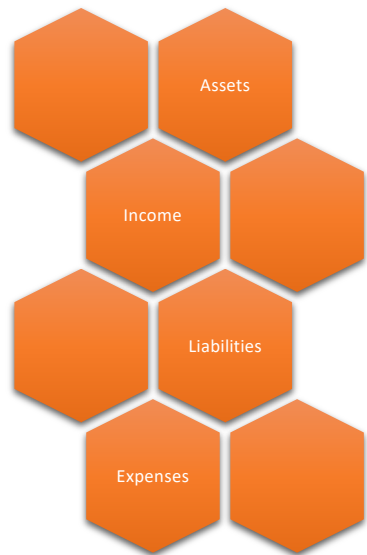




And limited solutions

- Imagine going to an M.D. who could only prescribe some of what's in the PDR.
- But that's what happens in the world of financial planning
 - Some brokers can talk about mortgages but not reverse mortgages
 - Some advisers can give tax advice but not others.
 - Some advisers will recommend an annuity if appropriate but not others

The Process of Creating a Retirement Income Plan



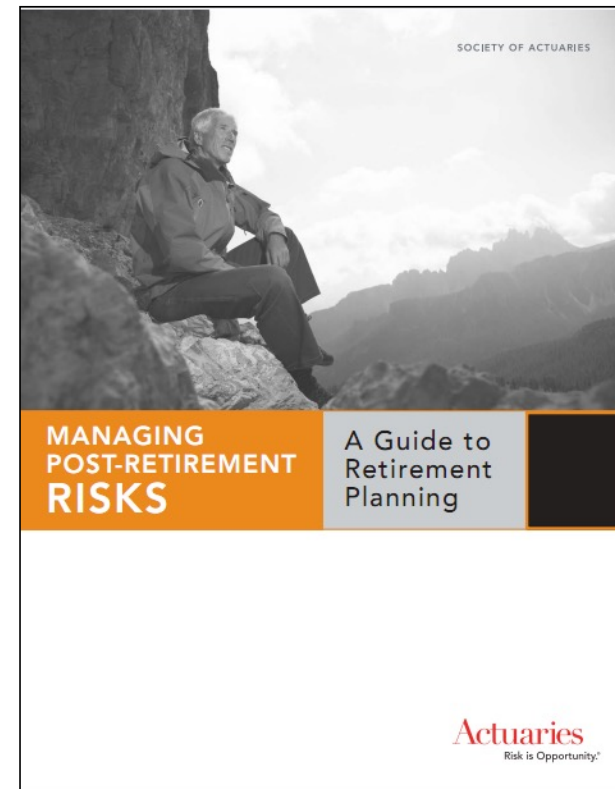


Assessing retirement readiness

- Fundedness based on PV or retirement income and expenses, not unlike process used to determine fundedness of corporate or state and local government pension
- Monte Carlo
- Aft-casting Unveiling the Retirement Myth: Advanced Retirement Planning Based
 - -Sensible Money, RMA

Retirement risks

- Part of assessing retirement readiness is identifying retirement risks and ways to manage/mitigate them
 - Longevity Risk
 - Inflation Risk
 - Interest Rate Risk
 - Stock Market Risk
 - Business Risks
 - Employment Risk
 - Public Policy Risks
 - Unexpected Health Care Needs & Costs
 - Lack of Available Facilities or Caregivers
 - Loss of Ability to Live Independently
 - Change in Housing Needs
 - Death of a Spouse
 - Other Change in Marital Status
 - Unforeseen Needs of Family Members
 - Bad Advice, Fraud or Theft
 - Source: www.soa.org/files/pdf/post-retirement-charts.pdf



Thinking about risk

- Risk is the probability that exposure to a hazard will lead to negative consequences.
 - Risk by David Ropiek and George Gray



Retirement Risks

	Hazard	Exposure	Probability	Predictability	Consequences	Risk management (avoid, retain, insure)	Client sign off
Longevity							
Inflation							
Interest rate							
Stock market (volatility, sequence of returns)							
Business continuity							
Employment							
Public policy							
Unexpected health care needs							
Lack of available facilities and caregivers							
Loss of ability to live independently							
Change in housing needs							
Death of a spouse							
Other change in marital status							
Unforeseen needs of family members							
Bad advice, fraud, theft							
Related planning issues							

Risk management guidelines

	High Frequency of Loss	Low Frequency
High Severity of Loss	Avoidance	Insurance
Low Severity	Retention/ Reduction	Retention





Longevity

- Hazard: Yes
- Exposure: Yes
- Probability: High
- Predictability: Long lifetimes are difficult to predict for individuals.
- Consequences: Outlive assets, desired standard of living.
- Risk management: Social Security, traditional pensions, immediate annuities, DIAs, deferred VAs, indexed annuities, managed payout plans, and reverse mortgage
- Client sign off and documented in Retirement Policy Statement
 - Source: RMA and SOA

Longevity

	Hazard	Exposure	Probability	Predictability	Consequences	Risk management (avoid, retain, insure)	Client sign off
Longevity	Yes	Yes	High	Long lifetimes are difficult to predict for individuals.	Outlive assets, desired standard of living	Social Security Traditional pensions Immediate annuities DIAs Deferred Vas Indexed Annuities Managed payout plans Reverse mortgage	



Health care

- An average retired couple age 65 in 2021 may need approximately **\$300,000** saved (after tax) to cover health care expenses in retirement: Fidelity
- At the extreme — a couple with high drug expenses throughout retirement who wants a very high chance of having enough money for health care expenses in retirement by age 65 — targeted savings are **\$325,000** in 2020.

Health care

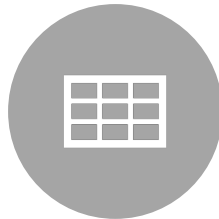
- Health insurance premiums account for between 75% and 82% of retirees' annual health care expenses and, for the most part, are predictable and can be paid from monthly income. However, out-of-pocket expenses can vary and should be paid from savings.
- Traditional financial planning principles and basic budgeting can help address many of the financial unknowns about health care costs in retirement.
- Total Annual Health Care Costs (Median Retiree): \$3,400 ind, \$6,800 couple
 - T. Rowe Price



Allocating Assets



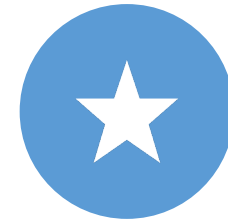
RMA: FLOOR, UPSIDE,
RESERVES, LONGEVITY



BUCKETS/ASSET LIABILITY
MATCHING/TIME
SEGMENTATION



FOUR BOX



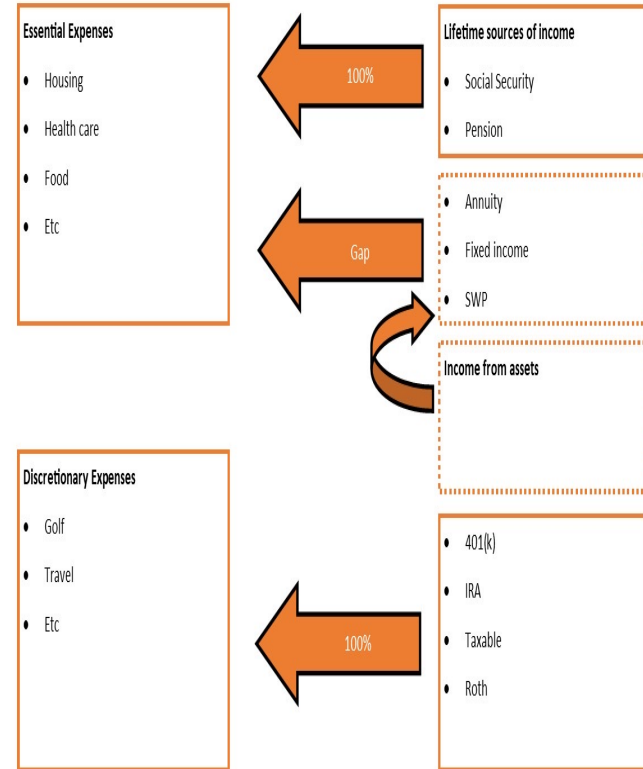
4%

Household Balance Sheet		10/31/19	
	Assets	Liabilities	
CV of Financial Capital	3,247,432	5,748,488	PV of Lifestyle Expenses
PV of Human Capital	2,783,825		
PV of Social Capital	993,647		
PV of Other Asset Income	143,710		
Reserved Home Equity	300,000	300,000	PV of Reserve for LTC
	7,468,614	6,048,488	
		1,420,126	Cushion
	7,468,614	7,468,614	
Retirement Risk Allocations			
	Assets	Liabilities	
Financial Capital	3,247,432	6,048,488	
		(4,221,182)	Less HC, SC, Other
	3,247,432	1,827,306	Lifestyle Floor
Lifestyle Floor	(1,827,306)		
Spending & Reserve	(275,000)		
Growth & Legacy Upside	1,145,126		
Balance Sheet Risk Allocations		Floor Coverage Ratio	
Growth & Legacy Upside	1,145,126	35.3%	178%
Lifestyle Floor	1,827,306	56.3%	Assets/Liabilities Ratio
Longevity	-	0%	123%
Spending & Reserve	275,000	8.5%	
	3,247,432	100.0%	
Plan Risk Allocations (Adjusted)		Current %	Current \$
Growth & Legacy Upside	1,172,432	36.1%	35.5% 1,151,925
Lifestyle Floor	1,800,000	55.4%	44.9% 1,459,092
Longevity	-	0.0%	0.0% -
Spending & Reserve	275,000	8.5%	19.6% 636,415
	3,247,432	100.0%	100.0% 3,247,432

F U L R

- Sources
 - R-Map: <https://www.thestreet.com/retirement-daily/learning-center/how-to-build-a-retirement-income-plan>

Four Box



Buckets/Asset Liability Matching



<https://www.thestreet.com/retirement-daily/learning-center/how-to-build-a-retirement-spending-plan>

Retirement Daily

Accounts and Products

- Traditional IRAs/401(k)
- Roth IRA/401(k)
- Taxable Accounts
- Home Equity
- Life Insurance Cash Value

Stocks and bonds

Annuities

Life insurance

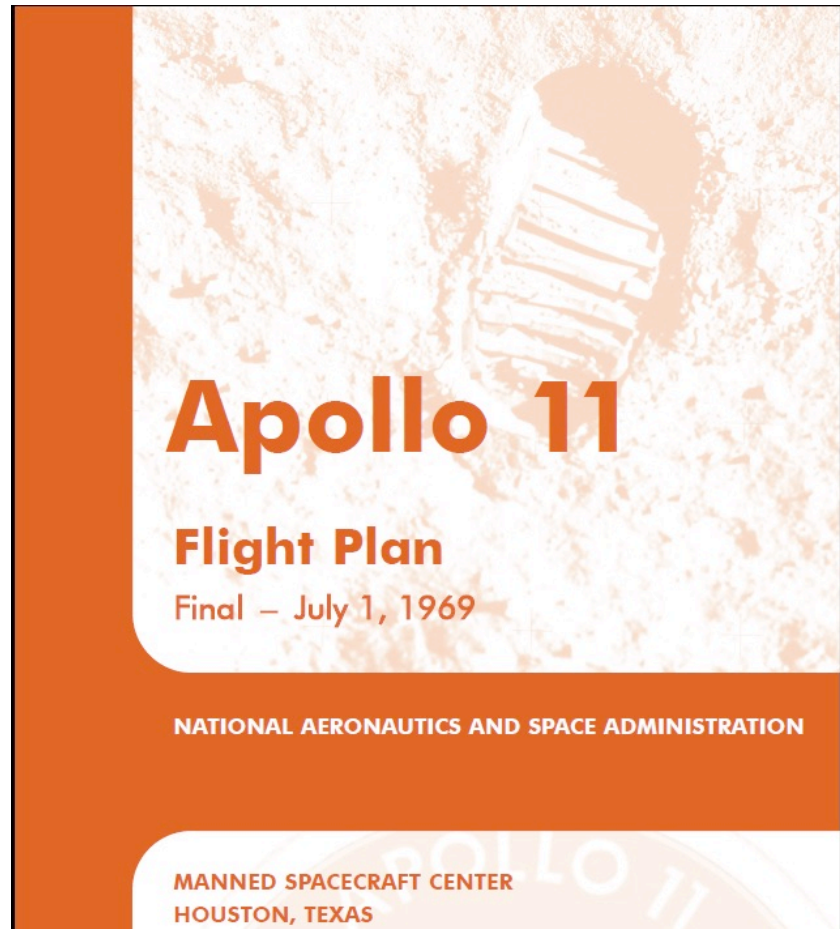
Reverse Mortgage

Equity-linked participation

Etc.



Monitor and Course Correct



Building Your Practice

Develop

- Develop expertise in tax, elder planning and behavioral finance
- Jamie Hopkins, IWI Exceptional Advisor podcast
- Salem State University Elder Planning Specialist course
- Rational Choice in an Uncertain Retirement, RMJ Dec. 2022

Help

- Help your clients retire to something
- Larry Jacobson, <https://larryjacobson.com/author/>

Become

- Become a concierge
- Build a team of in-house or outsourced specialists in Social Security, Medicare, senior housing, travel or education
- Help them build a non-financial legacy, inclusive of an ethical will (Rabbi Leder, 30 Lessons for Living, Susan Turnbull, *The Wealth of Your Life: A Step-by-Step Guide for Creating Your Ethical Will*).
- A student of the subject

Create

- Create a Retirement Roadmap
- Retirement Planning Opportunity Zone, <https://www.thestreet.com/retirement-daily/planning-living-retirement/10-must-know-ages-during-the-retirement-planning-opportunity-zone>
- 4 steps to reinvent your retirement playbook

How to Reach Me



@rjp111



www.linkedin.com/in/powellrobert



rpowell@allthingsretirement.com

Websites

- www.retirementinvestor.io: Features articles written by financial professionals
- www.retirementdaily.net: Features articles written by financial professionals, including members of FPA's NexGen community
- www.thestreet.com
- www.marketwatch.com
- www.usatoday.com
- www.finstream.tv, new streaming channel focused on personal finance
- <https://content.investmentsandwealth.org/investments-wealth-institute-podcasts> featuring guests including Carl Richards, Dan Crosby, John Nersesian.



Q & A

And thank you for not throwing tomatoes...