DATE: **February 19, 2017**

AUTHOR: **Aaron M. Bell**, ChFC®, CLU®, CLTC®, MA

TOPIC #5: **Smooth but Aggressive Retirement Portfolio**

PROMPT: **How can we balance the dual desires of many retirees to have a smooth and consistent spending stream, but to also incorporate plenty of volatile investments into their portfolio?**

Bernstein (2012) reveals in his book, when a client is struggling with a dual desire for smooth spending, but also desires upside potential, they may want to create a "liability matching portfolio" and a "risk portfolio", allowing the client to dedicate buckets of monies towards particular goals, in line with the bucket theory of Waring and Seigel's (2007). This concept of risk pooling is a way of segmenting investable assets to make sure your bare minimums are covered—it of course assumes you have enough capital to actually fund retirement with some assets to spare. Not everyone is so lucky to accumulate a sufficient amount of "safe assets" for monte carlos analysis to predict an overwhelming positive outlook. But with good advice, and starting early, and sticking to a systematic process of investing, and rebalancing, one can greatly increase the probability of success.

The use of annuities is an increasingly considered tool for providing smooth consistent income, but it comes with costs and liquidity risk. As an advisor, a good goal to provide a similar level of annuitization is to leverage the social security system by deferring as long as is possible. As Bernstein (2012) explains, if one can draw down personal assets in the early years of retirement then s/he can lean on the promise of SS to provide upwards of 7%/yr avg growth in payments from the US government. With good planning, a lower earning spouse can take his/her social security beforehand helping smooth out the ride in the early years as well.

As Sexauer et. al (2012) points out, the greater challenge is often the psychological state of the clients themselves once they reach retirement. This is where the role of advising really becomes important to help implement behaviors that prevent investors from acting against their own best interest—ie., (depending on their situation)not take social security early if you can help it, do not lock up all your assets into annuities in lieu of liquidity or upside potential, consider risk pooling, consider reverse mortgages to tap into large portions of personal net worth, consider estate tax planning which may alleviate some income tax pressures and ensure one's assembled wealth continues to positively impact the people or organizations that mattered most during those many decades of hard work. And above all, as noted in Pfau (2011), while in mid-career plan to live long, build in concessions for lower investment returns, for higher inflation, prepare for working longer or living on less if economic times necessitate—build in flexibility, and retirees could be that much closer to peace of mind.

References:

Bengen, W. P. "Sustainable Withdrawals" Chapter 13 from Evensky, H., & Katz, D. (Eds.). (2006). *Retirement Income Redesigned: An Adviser's Guide for Funding Boomers' Best Years*. New York: Bloomberg Press.

Aaron M. Bell | ChFC®, CLU®, CLTC®, MA | Financial Advisor

| **CANNATARO PARK AVENUE FINANCIAL**
| Nortwestern Mutual Wealth Management Co.
| 245 Park Avenue, Suite 1800
| New York, NY 10167
| cpaf.nm.com
| 646.366.6571
| Aaron.Bell@NM.com

Bernstein, W. J. (2012). The Ages of the Investor: A Critical Look at Life-cycle Investing (investing for Adults, Book 1). Efficient Frontier Publications.

Pfau, Wade D. 2011. "Getting on Track for a Sustainable Retirement: A Reality Check on Savings and Work." Journal of Financial Planning 24, 10 (October): 38-45.

Sexauer, Stephen C., Michael W. Peskin, and Daniel Cassidy. 2012. "Making Retirement Income Last a Lifetime." Financial Analysts Journal 68, 1 (January/February): 74-84.

Waring, B.S. and Siegel, L. B., "Don't Kill the Golden Goose! Saving Pension Plans," *Financial Analysts Journal* 63, no. 1 (January–February 2007): 31–45.

Aaron M. Bell | ChFC®, CLU®, CLTC®, MA | Financial Advisor

| **CANNATARO PARK AVENUE FINANCIAL**
| Nortwestern Mutual Wealth Management Co.
| 245 Park Avenue, Suite 1800
| New York, NY 10167
| cpaf.nm.com
| 646.366.6571
| Aaron.Bell@NM.com