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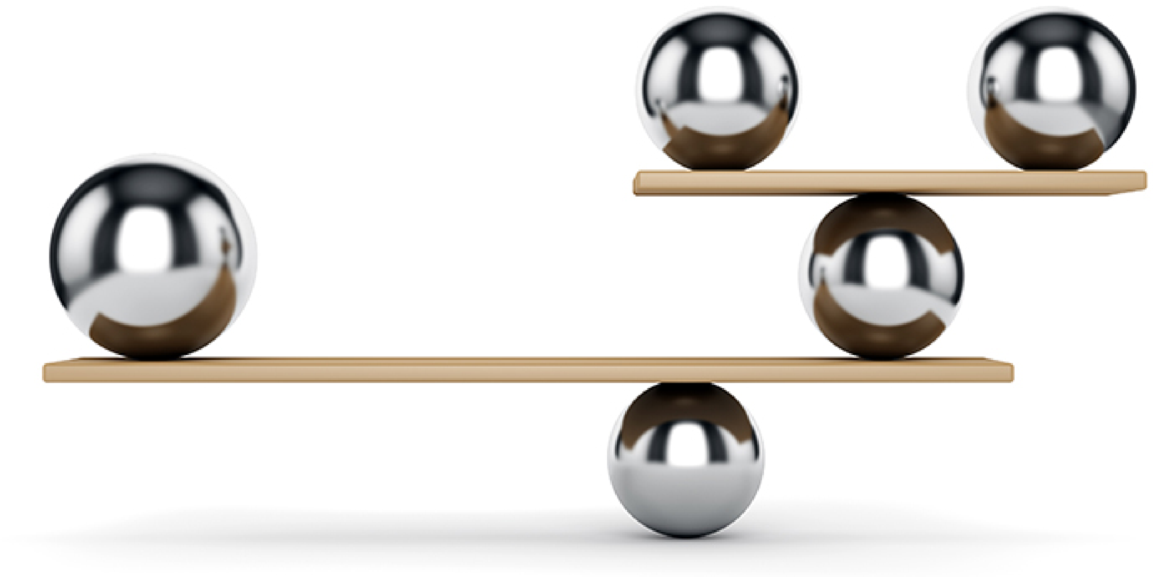
Planning more efficiently for longevity:

Addressing the challenges of non-linear returns in retirement

Greg Goin CFP®, CIMA®, CLU,®CRPC®
External Risk Management Consultant



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RIA-068 (R-6/2020)

Allianz

Agenda

Solving a complex problem

The rise of an integrated solution

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“ The nastiest, hardest problem in finance. ”

On the **challenge of turning savings into retirement spending**

William Sharpe

Nobel Laureate

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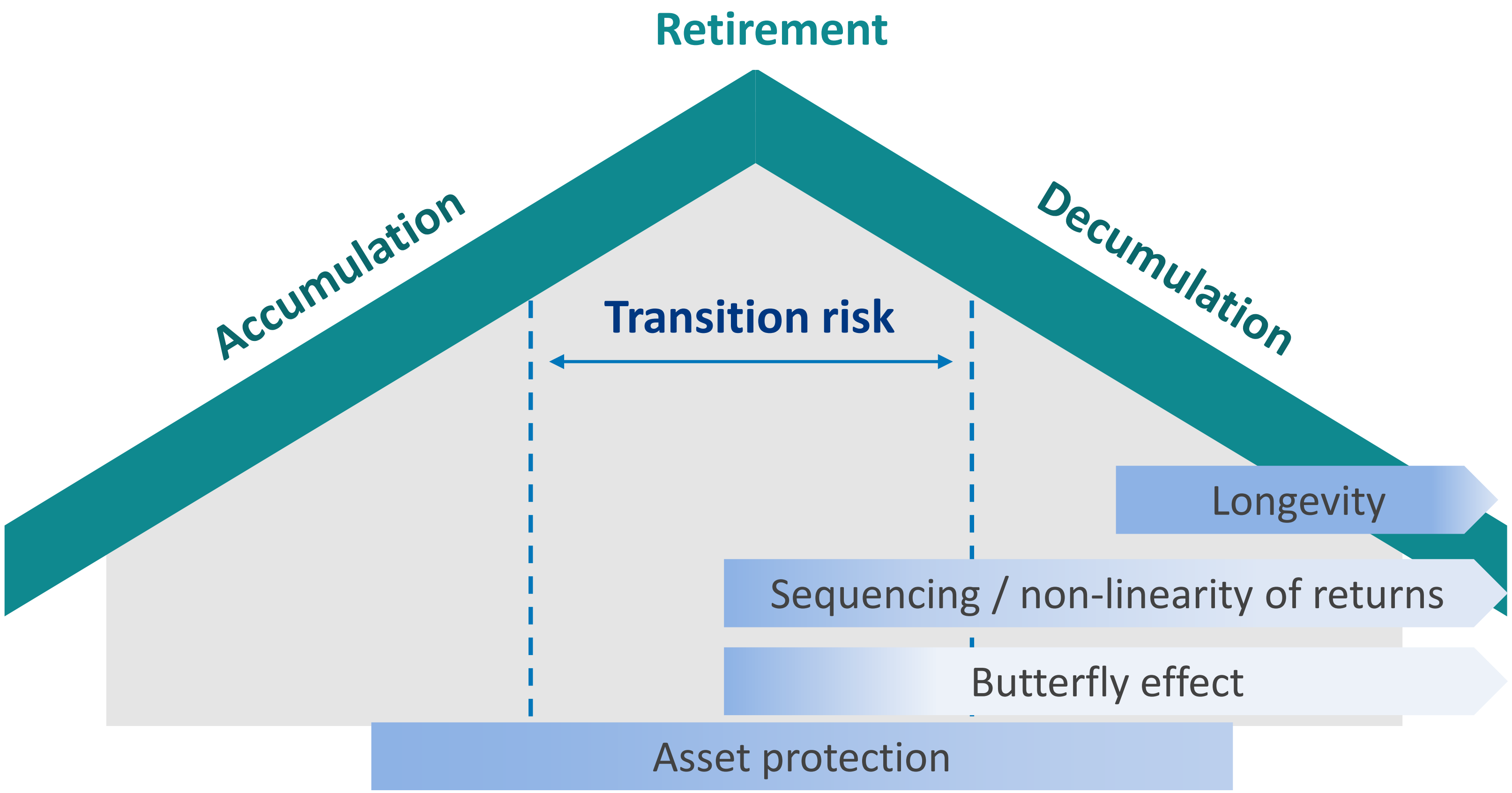
Challenge of turning savings into retirement spending



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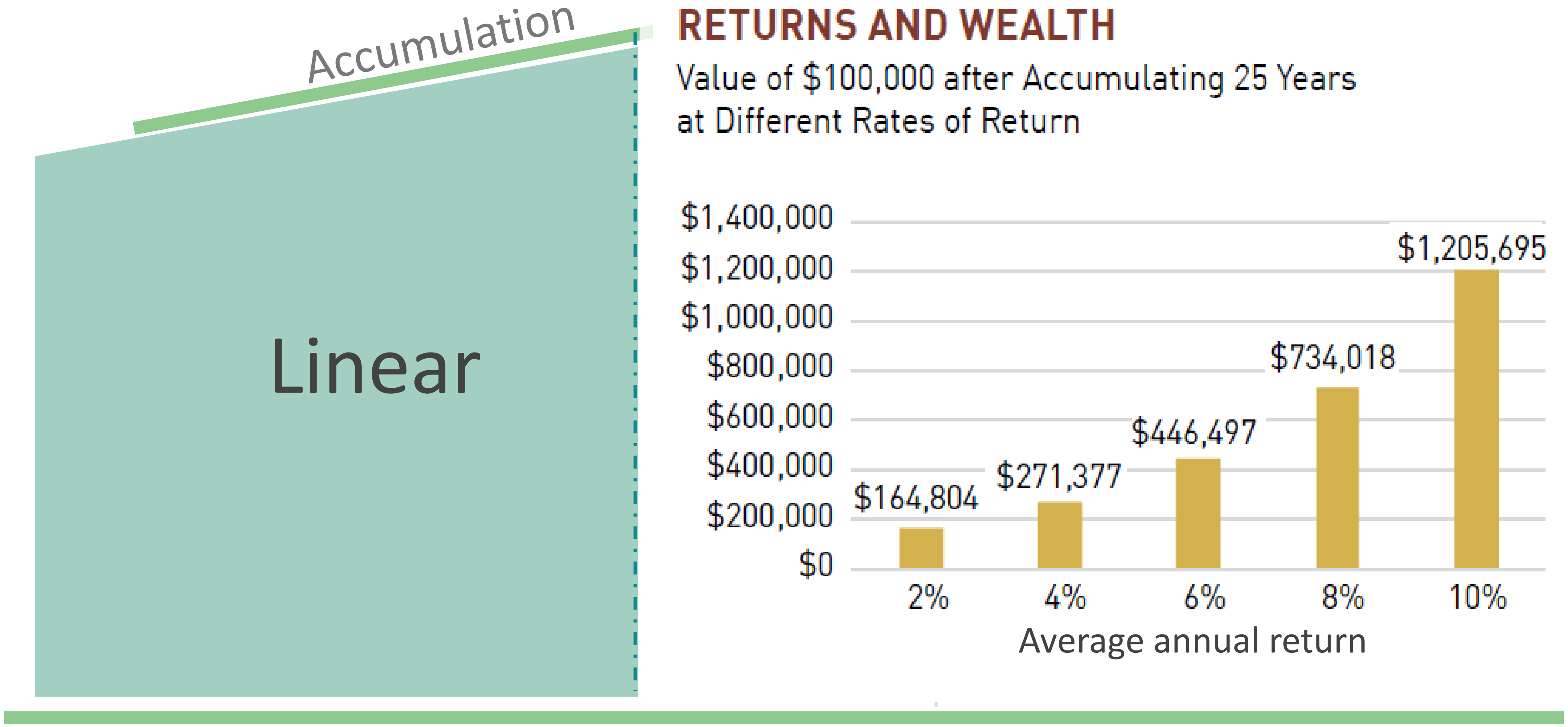
Simplified individual investment lifecycle

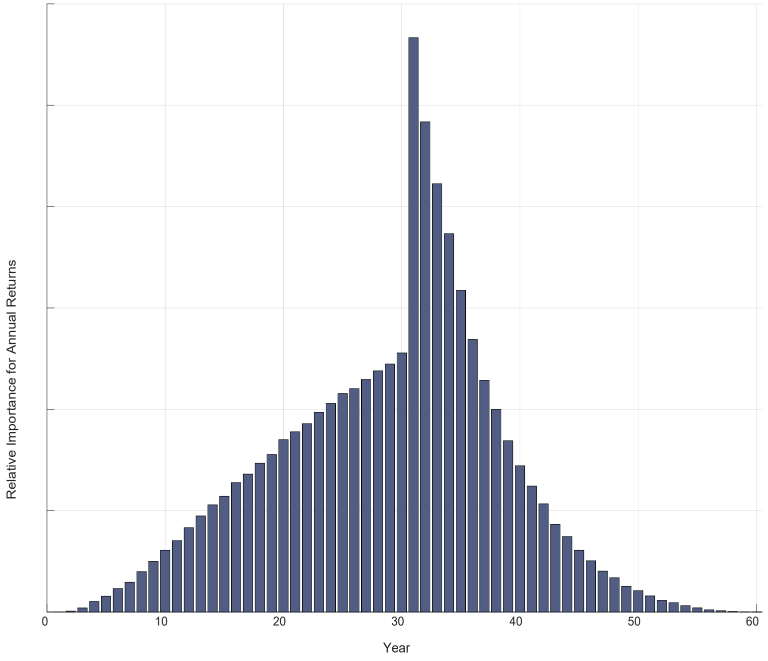


“Chaos and Retirement Income,” James B. Sandidge, JD., Retirement Management Journal, Vol 8, No. 1, 2019.

Simplified individual investment lifecycle

Lifetime Sequence of Returns Risk

50/50 Allocation, inflation-adjusted spending
100,000 Monte Carlo Simulations, Based on SBBI Data, 1926–2018, S&P 500 and Intermediate-Term Government Bonds



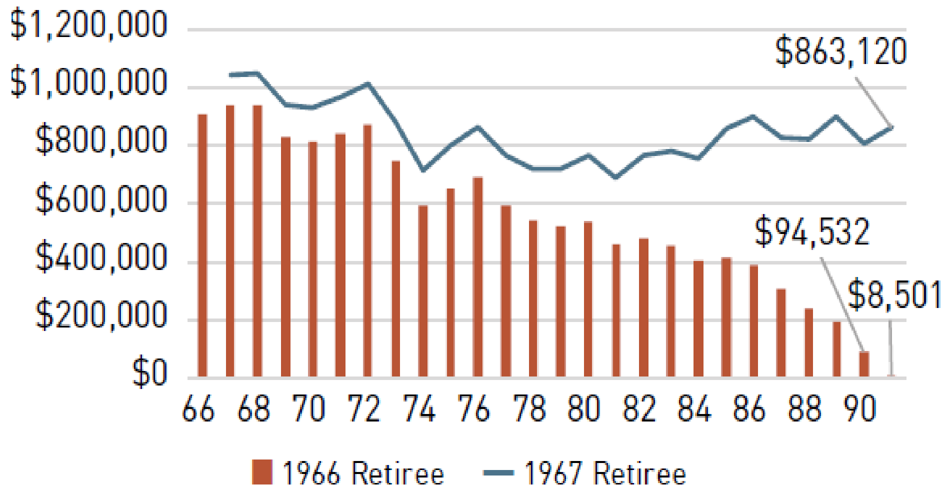
Transition

Sensitivity

THE BUTTERFLY EFFECT

Year-by-Year Account Values

$1 Million Investment, 50/50 Allocation, 5% Initial Withdrawal, 3% Annual Increases



"Best Practices for Retirement Income Planning," Wade Pfau, Ph.D., CFA, RICP, Retirement Researcher 2019.

"Chaos and Retirement Income," James B. Sandidge, JD., Retirement Management Journal, Vol 8, No. 1, 2019.

This hypothetical example is for illustrative purposes only.

Simplified individual investment lifecycle

Planned longevity	**% chance running out of money** (living beyond planned)	**% chance of deploying too much for income** (death before planned)	**% chance planned longevity is accurate**
Age 90	42%	54%	4%
Age 95	24%	72%	4%
Age 100	12%	86%	2%
Annuity w/ lifetime income benefit	***0%***	***~ 50%***	***~ 50%***

Decumulation

Nonlinear and longevity risk

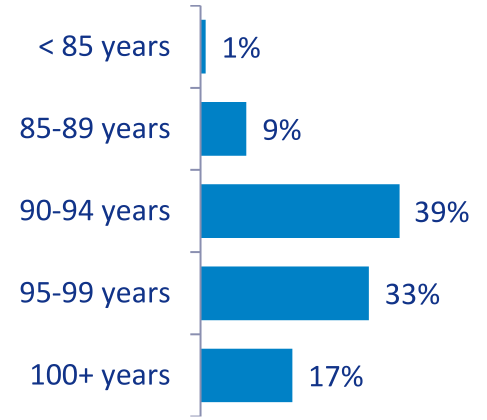
"Chaos and Retirement Income," James B. Sandidge, JD., Retirement Management Journal, Vol 8, No. 1, 2019.

Advisor survey indicates inefficient longevity planning

In a recent survey of financial planners, we found that **9 out of 10 plan for income well beyond their clients' life expectancies.**

Planning for the unknowns of longevity can lead to potential inefficiencies.

Life expectancy used for planning[1]



Actual life expectancy at age 65[2]

Male	**84.0**
Female	**86.5**

Why are planners so cautious?

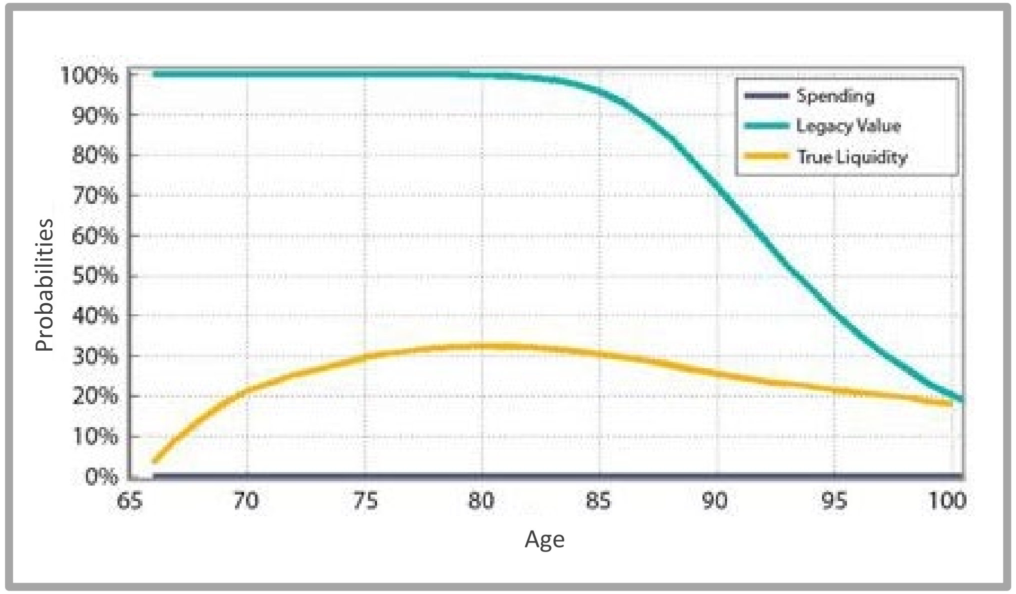
In our study,

2/3

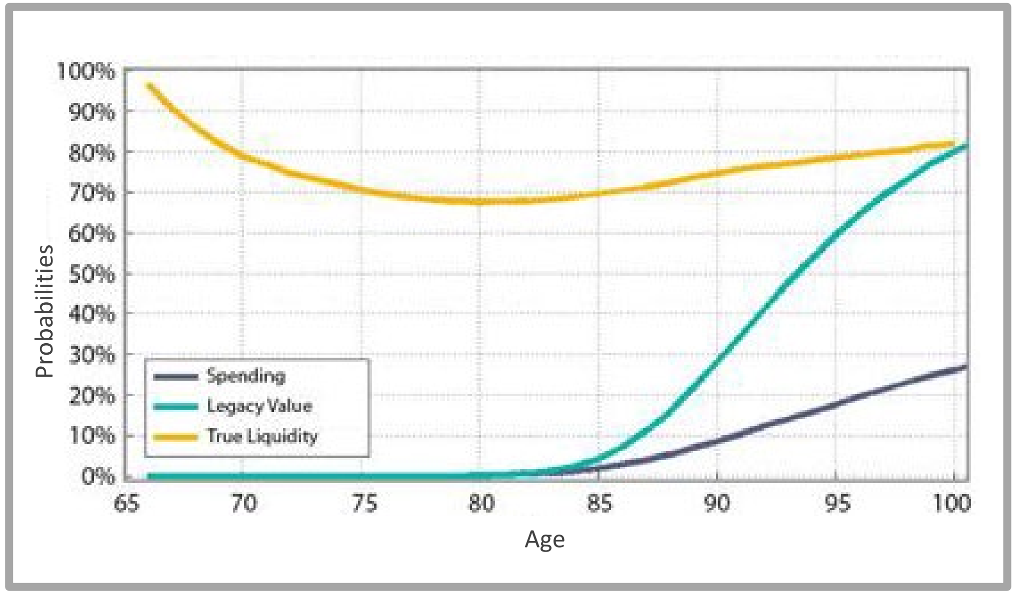
said their **clients are very or extremely concerned** about outliving their money.

Probability for Outperformance

50/50 portfolio provides more than annuity + stocks



Annuity + stocks provides more than 50/50 portfolio



Risk premium vs. risk pooling investments only vs. partial annuitization for 65-year-old female with $1 million seeking to spend $45,000 through age 100.

Pfau, Wade D. 2017. "Retirement Income Showdown: Risk Pooling Versus Risk Premium." *Journal of Financial Planning* 30 (2): 40–51.

This hypothetical example is for illustrative purposes only.

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Leveraging institutional scale and capabilities to improve efficiency

Why consider transferring longevity risk to an insurance company?

- Insurance companies can pool risk and utilize actuarial large number analysis
- This allows for more efficient management of assets for liquidity needs (near-term liabilities) and growth potential (longer-term liabilities)
- By transferring this critical function to an insurance company, you can also gain:
  - More capacity to focus on other assets in the portfolio
  - More time for other tasks in your practice like acquiring new clients and nurturing existing relationships
- In addition to taking on longevity risk, the insurer can also assume market, reinvestment, and default risks

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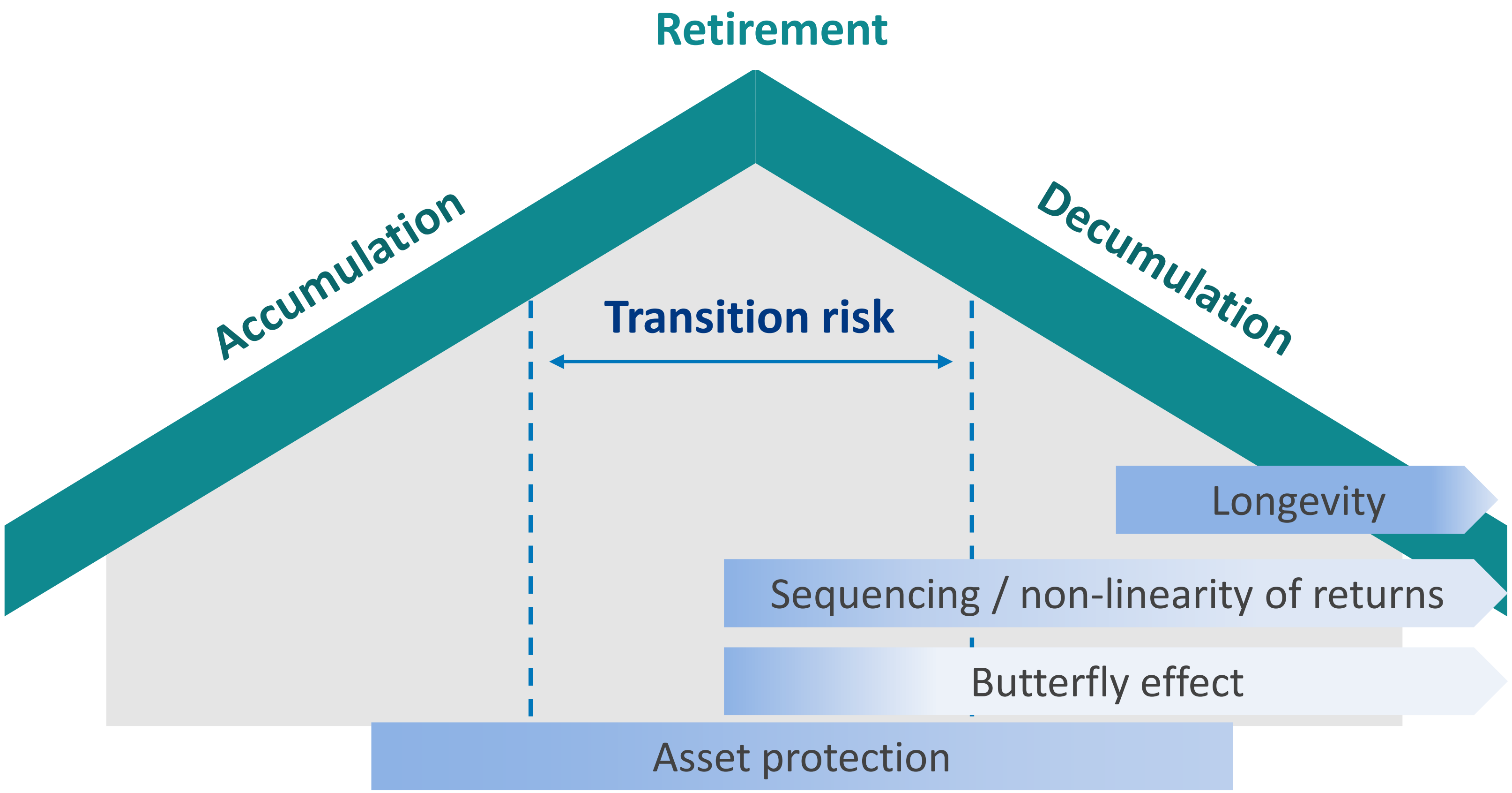
Challenge of turning savings into retirement spending



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How has the industry responded?

Schwab Announces Launch of Schwab Intelligent Income™ to Modernize How Investors Can Pay T

BlackRock introduces iRetire
lifetime questions

IRS Makes Annuities R

**DPL Financial Part
firm and first "life
commission-free insurance network**

20TH ANNIVERSARY insurancenewsnet
Your industry. One source. For over 20 years.

Allianz Life Partners With SS&C's Black Diamond Wealth Platform

To better help investment advisors incorporate annuities into clients' holistic financial plans, including managing retirement risk, Allianz Life Insurance Company of North America (Allianz Life(R)) today announced a strategic partnership with SS&C's Black Diamond(R) Wealth Platform, an award-winning1 portfolio management platform for financial professionals.

Microsoft and BlackRock Announce Retirement Planning Partnership

e New Alliance

e Big Push for Lifetime Income Awareness

RIAs Give No-Load Annuities Another Look

“Buying an income annuity with a portion of a retiree’s portfolio […] ***efficiently reduces the risk of outliving safe investments.*** *”*

David Blanchett

Head retirement research Morningstar

Ph.D., CFA, CFP®

Michael Finke

Chief Academic Officer of American College

Ph.D., CFP®

Blanchett, David M., and Michael Finke. 2018. “Annuitized Income and Optimal Equity Allocation.” *Journal of Financial Planning* 31 (11): 48–56.

“The insurance world is poised to enter a ***new era of product creativity*** *[…] Now the distribution winds are shifting from traditional* ***commission-compensated agents to fiduciary advisors,*** *who are going to be making very different requests.”*

45

new advisory products

Bob Veres

Financial Planning Columnist

“Solutions, Not Products,” Bob Veres, Portfolio Management.

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> *We aim to test these competing approaches to provide greater clarity about the* ***role of risk pooling (income annuities) and risk premium (stocks) in a retirement income plan.*** *The analysis is based on meeting a prioritized list of* ***spending goals: funding retirement spending, supporting liquidity to cover contingencies or to support further lifestyle enhancements, and providing a legacy to the next generation.***

Wade Pfau

Professor of Retirement Income
Ph.D., CFA, RICP

Pfau, Wade D. 2017. "Retirement Income Showdown: Risk Pooling Versus Risk Premium." *Journal of Financial Planning* 30 (2): 40–51.

Summary

Solving a complex problem

The rise for an integrated solution

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Disclosures

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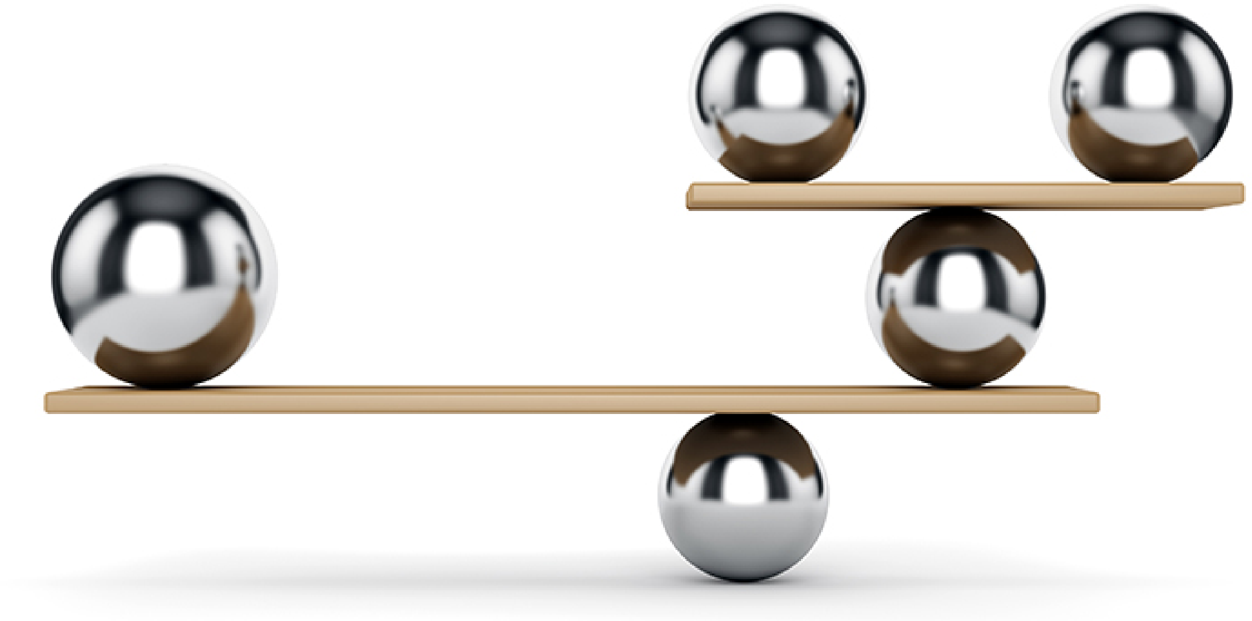

THANK YOU.

QUESTIONS?

FOR ADDITIONAL INFORMATION AND SUPPORT, CONSULT WITH:

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