

All findings, interpretations, and conclusions of this presentation represent the views of the author(s) and not those of the Wharton School or the Pension Research Council. © 2009 Pension Research Council of the Wharton School of the University of Pennsylvania.  
All rights reserved.

# Comparing Spending Approaches in Retirement

---

John Ameriks  
Michael Hess  
Liqian Ren

2009 Pension Research Council Symposium

# Overview

---

- New approaches to retirement income challenge
  - Payout funds
  - Guaranteed Lifetime Withdrawal Benefits
  
- “Guaranteed” products facing difficult times
  
- Is there an optimal solution?

# Payout funds – An Investment Solution

---

- Two types
  - Endowment style - Payouts in perpetuity
  - Time-horizon style - Payouts over a set period
- Pre-packaged withdrawal strategy within a mutual fund
  - Sometimes combined with automatic liquidation
  - Some have payouts built into the distribution process
- Payout funds do not guarantee the level of payments
  - Payouts can (and have) included a return of capital

# Payout funds - Approaches vary

	Distribution Type	Asset Allocation Equity/Bond	Fees
Baron Retirement Income Funds	Endowment	100% Equity	1.5%
Schwab Enhanced Payout	Endowment	25% / 75%	.68%
Fidelity Income Replacement 2040	Time Horizon	64% / 36%	.67%
John Hancock Rising Distribution	Endowment	50% / 50%	1.25%
Russell Retirement Distribution 2017	Time Horizon	20% / 80%	1.34%
Scudder LifeCompass 2040	Time Horizon	95% / 5%	1.16%
Vanguard Growth & Distribution	Endowment	75% / 25%	.58%

Sources: Ernst & Young Retirement Income Knowledge Databank; company websites and prospectus.

# Struggles for VA+GLWB products

---

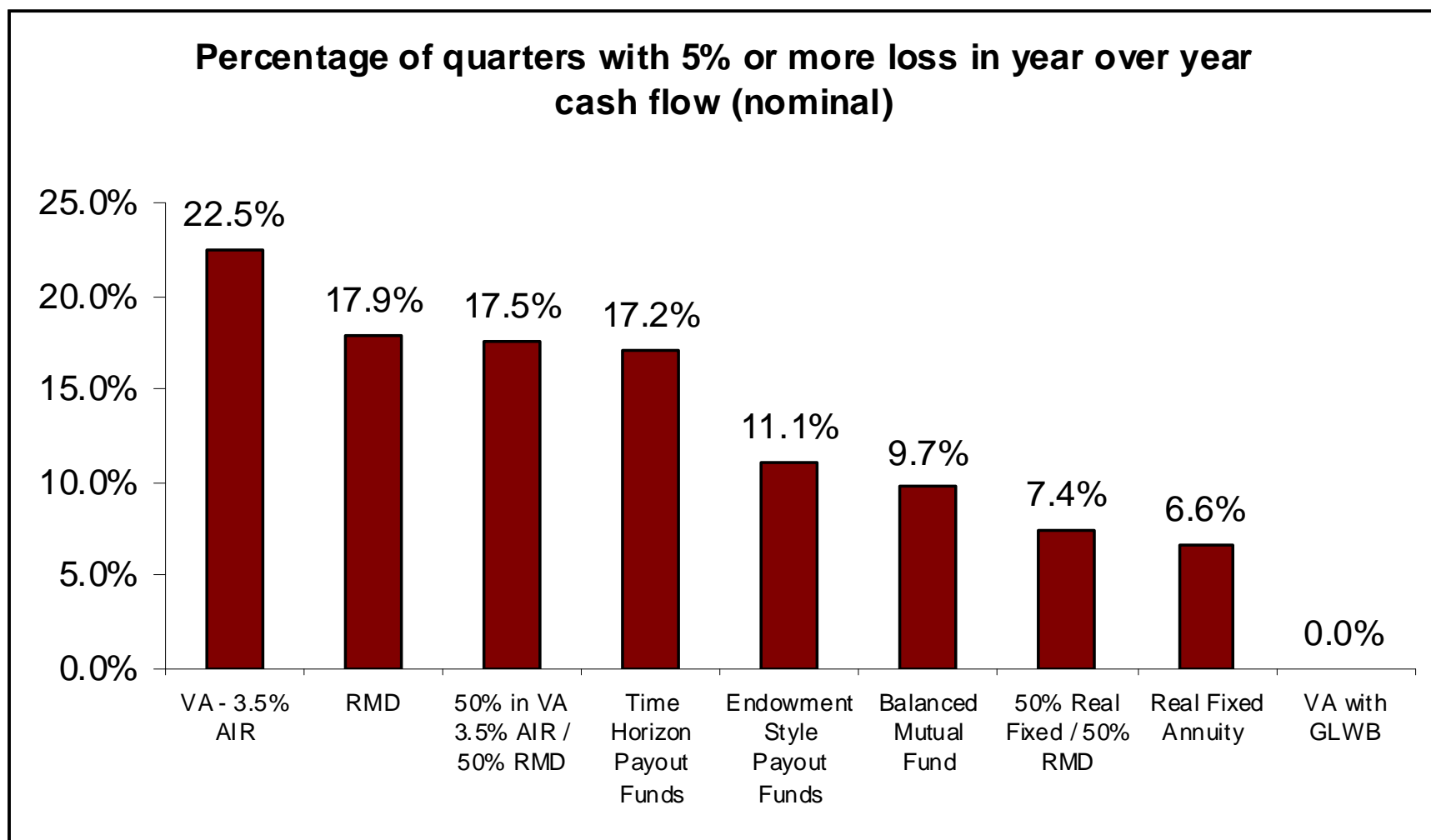
- Market downturn has put significant stress on insurers
  - Downgrades of financial strength ratings
  - Big losses tied to investment portfolios
  - Increased costs for guarantees
- Several providers have suspended sales of guarantees
  - Allianz
  - AXA
  - Fidelity
  - Mass Mutual

# Is there an Optimal Solution?

---

- We perform a simulation exercise, focused on a variety of outcomes that matter to retirees:
  - Volatility of income
  - “Probability of exhaustion”
  - Residual portfolio value
  - Internal Rate of Return
- We are agnostic about the “utility function”
  - Both consumption and residual wealth matter to clients
  - (Other work focuses on a formal model)

# Several strategies offer stable income...





# ...but generally less residual wealth

