The Big Spend Down:
Digital Investment Advice and Decumulation

Steven Polansky, Peter Chandler and Gary R. Mottola

Spring 2018 Pension Research Council Symposium

May 4, 2018

Goals of Our Paper

- Provide a brief review of digital the

- Sha pro and de ide ma

- Discuss how these decumulation strategies could affect investors.

A robo is a principally on-line or mobile-based service that incorporates customer profiling, asset allocation, portfolio selection, trade execution, portfolio rebalancing, and tax loss harvesting functionality into a single tool and where algorithms drive the decisions about the outcomes along the value chain.
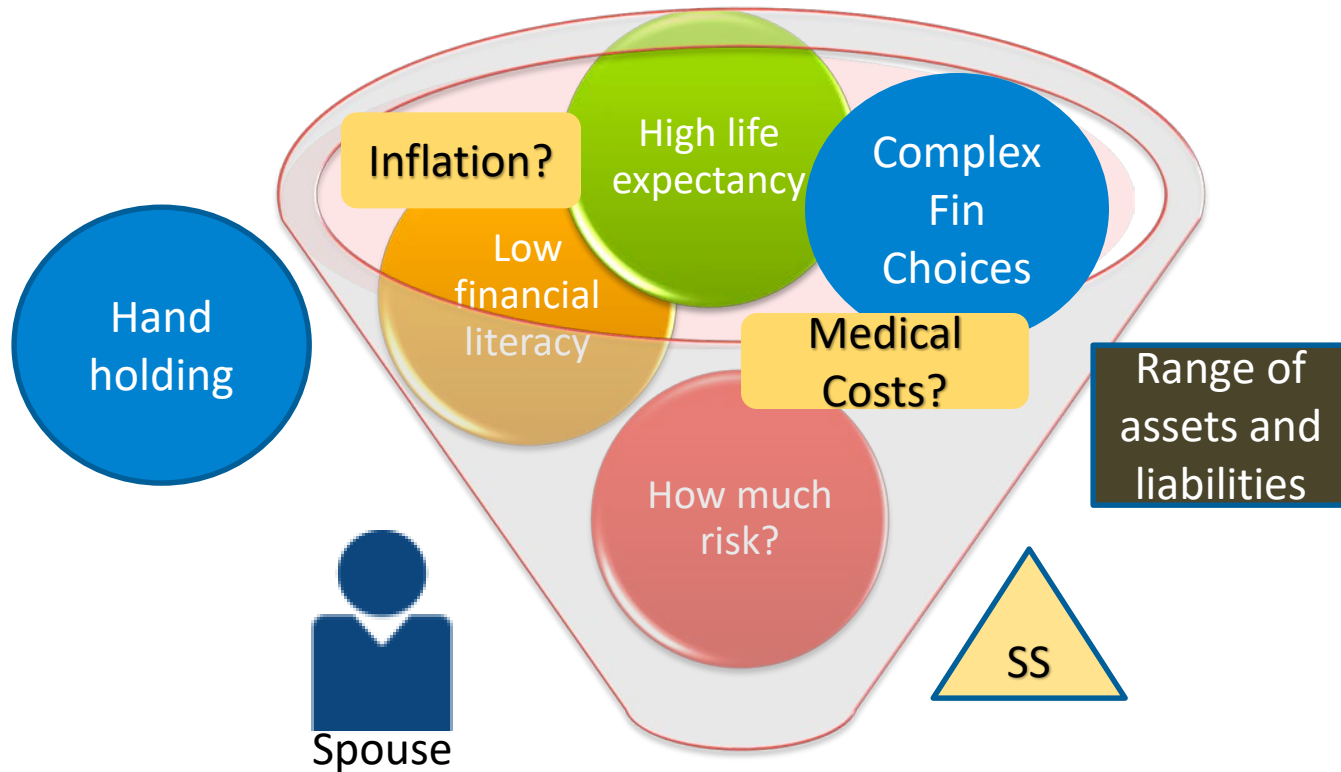(Polansky & Sibears 2016)

estment Advice

TRY REGULATORY AUTHORITY

We Wondered…

People who have never used a digital investment advice provider to accumulate may be looking for an easy and inexpensive means of managing their investments to generate an income in retirement.

Can digital advice providers meet this need?

And Also Meet Challenges of Decumulation

Enough $ to last your whole life

Robo Advisor Feedback

- Majority of robos today DO NOT focus on decumulation.

- But some offer services relevant to decumulation.

- One firm offers an automatic withdrawal feature that investors can turn on. The same firm offers a more sophisticated approach to draw downs that consider RMDs.

- Another firm focusing on 'do-it-yourself' oriented customers offers strong line of income-oriented portfolios.
  - ➢ Offers a hybrid robo service that can help address more complex questions, such as determining the sequencing of withdrawing from taxable and non-taxable accounts.

Robo Advisor Feedback

One robo we spoke with focuses almost exclusively on decumulation.

- [obscured text]

- [obscured text] order accounts)

  ➢ Social Security optimization

  ➢ Health spending plan

"Robos are a bit like tax software, they can help people with a range of fairly standard financial situations, but you need to pay more for more sophisticated help."

Robo Advisor Feedback: How Much Human Involvement?

- Virtually every robo said SOME level of human involvement is/should be part of decumulation service today.

- The future?

"There may come a day when technology advances enough, particularly voice recognition, to make a pure robo model viable"

What Investor Advocates Had to Say

- Robos can democratize investing and retirement planning.
- But consumers must pay attention to costs, inputs and outputs.
- Robos can easily nudge investors to behave in ways that benefit them.
  - ➢ E.g. quick message to check their spend rate or monitor the progress toward their goal.
- Scale of success or failure is large.
  - ➢ "If robos get it wrong, they get it wrong for lots of people."
  - ➢ If robos get it right, they have successfully delivered cost-cost advice to a large swath of investors.
- Digital advice customers should work the their advisors and trusted individuals to ensure a plan is in place to address changes in cognitive ability.

Takeaways

- Decumulation tools likely to move from advisors to investors: They are where investment management software was several years ago—at the professional level.

- Platforms take emotion out of The Big Spend Down offering protection against overconfidence, loss aversion, mental accounting, framing and more. In short, they take emotion out of decumulation.

- Education remains vital: Investors may need assistance interpreting and utilizing the information that many robo advisors provide to their clients. (e.g Monte Carlo simulations).

- High value and low cost is not a given. Nor is the fact that you will not outlive your income.

- Ample academic opportunity to study and inform this emerging field of robo decumulation.