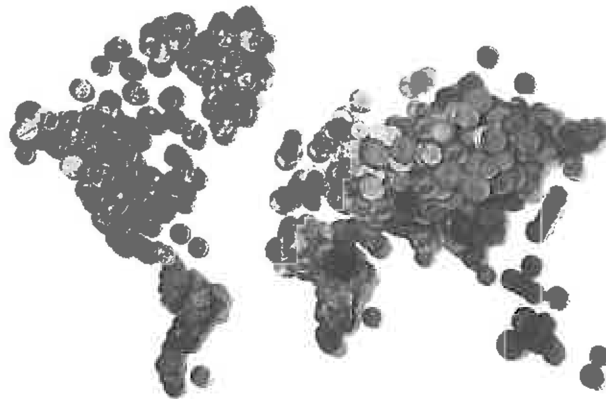
Retirement in a Yield-Free World

BY MICHAEL FINKE

ESTIMATING A RETIREment income strategy requires a few assumptions including the expected return on invested assets. A common strategy is to use asset return data from the past, and specifically from the recent past in the United States (mainly because the data were readily available). Using this set of return data results in estimated safe withdrawal rates from retirement savings in the range of 4 to 5%.



America has become a nation of yield addicts. When we've needed it, we've always been able to get a fix.

Now, let's imagine a world that looks nothing like the past: a world with more households in their peak saving years (between age 50 and 65) than at any time in the history of the United States; a world where America now makes up only 26% of the global bond market and less than 30% of the global market capitalization for stocks. This may not be a world that resembles the one that produced decades of high real yield for investors.

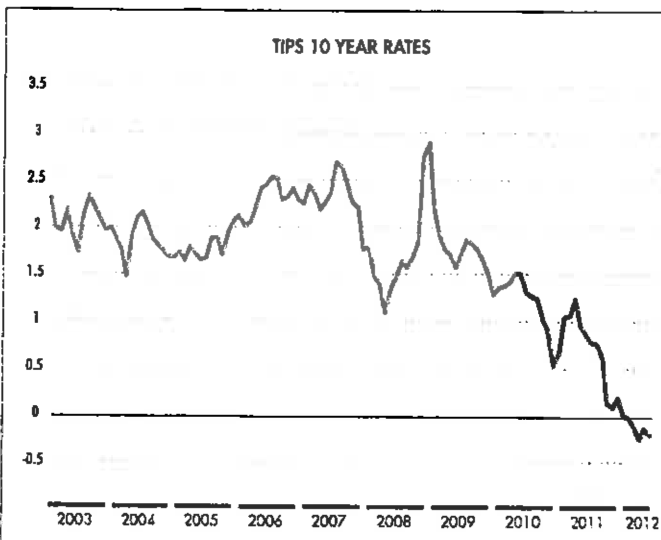
America has become a nation of yield addicts. When we've needed it, we've always been able to get a fix. Trust in a future with significant real yields and you can enjoy a secure retirement, a healthy pension, and you can even justify generous compensation for asset management services. But if it goes away, well, withdrawal is never pleasant.

It may be useful to revisit the purpose of financial markets. Financial markets exist to allow individuals and institutions to trade money across time periods and to transfer risk. Let's for a moment ignore the risk part (although there is mounting evidence that the reward for taking it isn't what it used to be). Trading money across time periods means that some people prefer to spend the money today and are willing to trade future dollars (through interest) with others who prefer to spend more in the future. This preference for consuming in the present rather than the future is the foundation of real asset yields. It means that when we give up spending today, we can spend even more in the future. That's a good deal for those who place a lot of value on consuming in the future—for example retirees who need the money to maintain a lifestyle.

Retirees are now buying financial instruments (as are the institutions that control their assets) to fund a lifestyle for an expected longevity that will last longer than any post-retirement period in history. Imagine these retirees bidding for assets in a marketplace where participants over the age of 60 now hold 51% of the total investable wealth in the U.S. In addition to wealthy, older U.S. investors, assets are also being demanded by cultures with a taste for saving that is greater than our own. This scenario is beginning to resemble reality for many entering retirement today. And the implications on our addiction to real yield are sobering.

It turns out that there is an easy way to estimate the market's willingness to

trade consumption in the present for consumption in the future. There is an asset with almost no default or inflation risk that allows investors to purely invest a dollar today for a promised amount in 5, 10 or 30 years. That asset is the Treasury Inflation Protected Security, or TIPS. Recent auction prices for TIPS reveal a new reality that points to a yield-free world. For much of the 2000s, real yields on 10-year TIPS hovered around 1.5 to 2.5%. In September of 2010, they dropped below 1%. By November of 2011, they were zero and for each of the last five months have been negative. Investors were willing to give up an annual 21 basis point decrease in real consumption in order to transfer a dollar's worth of spending today to a guaranteed, inflation-protected level of consumption in the future.



Negative TIPS rates may represent an overall market fear of inflation combined with a limited number of financial instruments available to serve as a hedge. However, May yields on 10-year Treasury bills are also running about 50 basis points below the April 2.3% inflation rate. It appears that investors have begun to accept zero or even negative real returns on safe assets over the coming decade.

Estimating withdrawal rate strategies without real yield is a gruesome task. So I asked my good friend, occasional co-author and withdrawal rate guru Wade Pfau, associate professor at the National Graduate Institute for Policy Studies, to calculate how zero real returns would impact traditional safe withdrawal rates. These estimates use the traditional methodology, which for better or worse assume constant inflation-adjusted spending from assets invested in either the S&P 500 or intermediate-term government bonds.

The retirement withdrawal rate literature used previous U.S. bond returns in order to estimate safe withdrawal rates. The real rate of return on intermediate term bonds between 1926 and 2010 was 2.52%. Using historical equity and bond return data, the failure rate of a 30-year retirement horizon is 6% using a 4% withdrawal rate strategy. However, as we know the best estimate of future bond returns is based on current market yields. If we really believe that future real bond returns will be 2.5%, then we should start a hedge fund that shorts long-run bonds. Financial advisors are better off assuming that the current market reflects reality.

When real rates of return on bonds are reduced to zero, Pfau estimates that the failure rate of a 4% withdrawal strategy increases the 30-year failure rate to 15%, or just over one out of every seven retirees. This near tripling of retirement default risk is disturbing, but it is not technically accurate because we also assume historical real equity returns. According to the capital asset pricing model, equity returns consist of an equity premium and a risk-free rate. Since the historical risk-free bond rate has been 2.5%, our historical equity returns are inflated if future risk-free returns are zero.

If we use a more accurate set of equity returns with a market-correct risk-free rate of return, the results are even more alarming. The failure rate of a 4% strategy with zero bond yield and a zero risk-free rate on equities is 34% over a 30-year time horizon. If real bond rates of return do not increase during a new retiree's lifetime, they will have a greater than one in three chance of running out of money in 30 years. Even this estimation may be overoptimistic since current real bond yields are not zero—they are slightly negative. This estimation also includes an equity risk premium that existed during a period of equity returns so high that most economists consider them a puzzle. A more conservative (and more realistic) estimate of failure rates in a low-yield, low-risk premium marketplace would almost certainly lead to estimates of safe withdrawal rates well below 4%.

One easy way for retirees to gain yield on retirement investments is to receive a mortality credit that will give them a higher withdrawal rate on safe investments in exchange for a loss of liquidity and bequest by annuitizing their wealth. Many advisors bemoan current rates of return on annuities which are as low as 3.8% on an inflation-adjusted single premium immediate annuity. However, these rates are based on the current yield-free reality. Are you willing to gamble that the market is wrong?

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BY BOB SEAWRIGHT

A Rational Look at a Much Maligned Product

Few products within the financial services industry have received as much consistent criticism as fixed index annuities. An FIA is a type of deferred fixed annuity that earns interest or provides benefits that are linked to an external reference or index, most commonly the S&P 500. The insurer underwriting the FIA generally funds its contracts using bonds and call options on the referenced index.

FINRA — which does not regulate FIAs but wants to — said in an Investor Alert that FIAs "are anything but easy to understand" and compared them unfavorably to 401(k) plans. And, with numbing consistency, the financial press routinely recycles round after round of criticism of this product.

For example, in an article earlier this year, *Money* called FIAs a "safety trap" and alleged that they have "pervasive problems." One major problem the magazine claimed is poor performance: "A typical index annuity would have lagged an investment portfolio with equivalent risk — 85 percent one-month Treasury bills, 15 percent U.S. large-cap stocks — by nearly two percentage points annually, on average, over the past 44 years." This claim is based upon the research of Prof. William Reichenstein of Baylor University,

who has also been a plaintiffs' expert witness in lawsuits attacking FIAs.

Forbes called FIA sales a "protection racket" and claimed that "whatever your station in life, indexed annuities are in all likelihood a lousy investment." The biggest complaint seems to have been that FIA performance doesn't match index performance and does not include dividends, even though it should be obvious that principal protection comes at a cost. *Forbes* even claims that "some 99 percent of the time indexed annuities underperform a simple portfolio that's 60 percent in zero-coupon Treasurys and 40 percent in a low-cost S&P 500 index fund," citing a prominent plaintiffs' consultant who seems to have made a pretty good living attacking FIAs. Last year *Kiplinger's* advised consumers to avoid FIAs citing "skimpy returns" despite "big promises."

Businessweek has attacked FIAs too. Oddly, the primary "victim" cited in the piece is said to have earned, after having taken a 15 percent early surrender charge, "about 3 percent a year" as compared to the S&P 500, which "returned 6.3 percent including dividends in the same period." Since the article says this victim held the FIA for about five years, it appears that its performance was essentially equivalent to that of the S&P 500 without principal risk. That hardly sounds like the returns of someone who was victimized. Since this alleged victim cashed out of her FIA in 2008, apparently for the higher potential returns of market exposure, I wonder what a performance comparison would have looked like a year later.

Despite the routine criticisms from the financial press claiming extremely lengthy terms and huge surrender penalties, most FIAs have now been retrofitted with shorter surrender periods

Fixed index annuities are designed to provide principal protection with annual returns roughly 1-2 percent better than traditional fixed annuities. Based upon those standards, FIAs appear to have succeeded.

and lower commissions. Broker-dealers commonly enforce a "10-10 rule" on FIAs whereby surrender periods cannot exceed 10 years and surrender charges cannot exceed 10 percent. Even the major wirehouse firms are now interested in them and some, such as Bank of America Merrill Lynch and Morgan Stanley Smith Barney, have already begun offering them.

Moreover, *The Journal of Financial Planning* (JFP) published a research study entitled "Real-World Index Annuity Returns" earlier this year that, for the first time, examined actual FIA returns. This study suggests that these poor FIA performance claims are not all they have been made out to be: "If your future included all of the 141 five-year periods from April 1995 through 2009, and you had purchased any of these real-world index annuities month after month, these actual index annuity results bested the S&P 500 alone over 67 percent of the time, and bested the 50/50 mix of one-year Treasury bills and the S&P 500 79 percent of the time."

Rather than relying upon questionable hypothesized crediting rate formulae, constant participation rates and caps, and unrealistic simulations of stock market and interest rate behavior, this study examined actual FIA returns. The research relied upon by *Money* and *Forbes* received especially stinging criticism: "The flaw in these studies is that they do not take into account the real-world effect of changes in interest rate environments and the market volatility's effect on the cost of providing the index participation. ... Clearly the reach of the conclusions is limited by the unrealistic assumptions underlying the annuity modeled."

Accordingly, "some index annuities have produced returns that are competitive with other asset classes, such as equities and equity/T-bill combinations. Although FIAs are not designed to be direct competitors of index investing (rather for safety of principal with returns linked to upside market performance), our findings on FIA returns contrast with assertions in other studies — based on no actual return data — that the structure of FIAs necessarily relegates them to being inferior or unsuitable products."

When I referenced the research with respect to "real-world" FIA returns noted above to a FINRA regulator, I was told that the study had to have been paid for by an insurance company and that any citation of it would require a disclaimer to that effect. That response tells you pretty much all you need to know about FINRA's view of FIAs. However, I have received outraged written confirmations from the study's authors denying any request for or receipt of sponsorship for their work. In fact, they turned down overtures of industry sponsorship.

That is not to say that all questions about FIAs have been answered. The "real-world" study has some serious shortcomings, most notably the paucity and potentially biased nature of the data and the inability of other researchers

to analyze it. FIA performance was also measured in a particularly difficult period for the market, when principal protection should be especially valuable.

In a follow-up piece in *JFP* entitled "Can Annuities Offer Competitive Returns?," Prof. Reichenstein expanded upon his criticisms of FIAs. His primary argument is that because of their design, FIAs cannot add value to offset their embedded costs. He comes to this conclusion not based upon data and testing, but upon a conceptual proof using the "arithmetic of equilibrium accounting" and the work of William Sharpe contrasting active and passive management. However, my review of scores of actual FIA contracts suggests otherwise. I suspect the flaw in his logic is that the leverage provided by the options FIA carriers use to provide interest undercuts Sharpe's argument on costs.

Fixed income annuities are designed to provide principal protection with annual returns roughly 1-2 percent better than traditional fixed annuities. Based upon those standards, FIAs appear to have succeeded. Indeed, according to a predecessor "real-world" study, FIA returns have averaged well over 5 percent per annum in a variety of market conditions since their inception. As the Wharton School's Prof. David Babbel, one of the study authors, noted, "for most levels of risk aversion, [FIAs] have dominated the alternatives." Indeed, "FIAs outperformed the alternatives over the lifetime of their existence (since 1995) for every year that they have been issued."

More research is clearly needed with respect to FIAs. Additional transparency and the broad release of performance data by FIA carriers would surely facilitate that work. However, FIAs seem to have far more promise for those with serious risk aversion than has been allowed by their critics to this point.

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Evidence Over Ideology

BY BOB SEAWRIGHT

In the words of the great Benjamin Graham, an "investor's chief problem – and even his worst enemy – is likely to be himself." We all like to think that we make decisions based upon a careful weighing of the evidence. But that is rarely what happens, as the behavioral research now establishes beyond doubt.

Our overriding tendency is to concoct belief systems based upon incomplete evidence or even out of whole cloth and then to set out looking for evidence to confirm what we have already decided. Moreover, we are not anything like objective. We interpret the evidence we do examine in ways that tend to be supportive of our prior commitments. We are ideologues through and through.

For example, the March 2012 issue of *Money* magazine rightly honors Jack Bogle as a hero on account of his having preached the benefits of low-cost and indexed investing and for making those objectives widely available as the founder of The Vanguard Group. *Money* follows that up with a puff piece on the "Bogleheads," devotees of Bogle with a variety of publishing ventures including a popular website (www.bogleheads.org) that – by-and-large – offers pertinent and helpful information for individual *do-it-yourselfers* from experts (such as the excellent Larry Swedroe of The Buckingham Family of Financial Services) and from interested amateurs.

However, even a few random visits to the Bogleheads forum reveals evidence of ideology run amok. Many there suggest that using a financial professional is always wasteful foolishness, no matter an individual's ability and interest in learning the fundamentals of investment management and behavioral economics as well as the perils they bring, since financial advisors are deemed generally incompetent and to care only about separating you from your money. Moreover, well-supported and non-controversial research on financial topics other than indexing (such as the judicious use of income annuities to deal with longevity and sequence risk) is often attacked by regulars as part of a conspiracy on the part of big corporations out to exploit investors. Accordingly, it can be difficult to ascertain where the good and well-supported advice stops and the ideological nonsense begins.

The same issue of *Money* includes an interesting interview with MIT's Andrew Lo wherein Prof. Lo (rightly, in my view) criticizes the efficient market hypothesis and advocates for his *adaptive* market hypothesis, positing that markets adapt over time to the biases and foibles of investors, bringing about inordinate risks, bubbles and crises. But he then flatly states that "buy-and-hold

doesn't work anymore." That sounds like an ideological commitment to me.

To be fair, the interview includes Prof. Lo's admission that our industry has not developed "good alternatives" to that approach and expresses concern less with the long-term returns of a traditional, diversified and rebalanced portfolio than with the behavioral pressures that cause so many to be their own worst enemies on account of maddening volatility. This idea is consistent with research findings by Morningstar showing that volatile funds tend to have the greatest discrepancies between time-weighted and dollar-weighted returns: "Volatile funds may entice investors on the upswing, but spook them into withdrawing during rough patches." Thus "investors in volatile funds can unwittingly end up buying high and selling low."

But Prof. Lo's bald proclamation can readily be used (and similar statements are being used) by ideologues (and salespeople!) to justify all kinds of nonsense, whether it be hedge fund and related strategies that fail by any reasonable measure (Simon Lack's recent book, *The Hedge Fund Mirage: The Illusion of Big Money and Why It's Too Good To Be True*, shows how Treasury bills have achieved twice the returns of hedge funds overall and hedge fund replication funds have had notoriously poor performance records since their inception), overpriced funds of any sort, or market-timing efforts that are doomed to failure.

A recent Financial Planning Association survey of its membership revealed that 50% follow a systematic withdrawal strategy for retirement income and a special report on retirement income planning in the December 2011 issue of *The Journal of Financial Planning* included an article by Jonathan Guyton showing that the mean initial sustainable withdrawal rate recommended by financial planners is 4.17 percent. These findings are consistent with a common rule of thumb that a 4 percent retirement withdrawal rate, adjusted annually for inflation, ought to be "safe" for traditional portfolios. As I have noted in this space before, this "rule" is largely based upon research by William Bengen and others showing that the lowest sustainable withdrawal rate historically from a standard portfolio to this point has been about 4 percent.

Yet financial services advertising typically includes a disclaimer something like *"past performance is not indicative of future results"* for very good reason. If nothing else, the 2008-2009 financial crisis taught that just because something has not happened or is highly unlikely to happen does not mean it cannot or will not happen. The 4 percent "rule" is based upon far too narrow a swath of data to be normative. Moreover, as recent research by my friend Wade Pfau has shown (in the Winter 2011 issue of *The Journal of Investing* and elsewhere), there is very good reason to think that sustainable withdrawal rates since 2000 have decreased dramatically. Indeed, for 2008 retirees, Prof. Pfau estimates a maximum sustainable withdrawal rate of only 1.5 percent. Blind faith in historical return levels going forward for these investors is likely misguided. Therefore, assuming that something like a 4 percent withdrawal rate is somehow "safe" can only be based upon an ideological commitment rather than a careful weighing of the evidence.

Accordingly, the need for assured income – most efficiently provided by a simple income annuity – is affirmed and remains the best choice for most retirees. It is the nearly unanimous choice of academics and other unbiased experts even though it is routinely rejected by advisors and consumers.

In the *Bucks* blog at *The New York Times* last summer, the typically outstanding Carl Richards made a plea for investors to "stay the course" in tough times based upon faith. "This act of faith is most evident when it comes to the stock market.... The core question becomes this: Do you still believe that stocks will continue to do better than bonds, and bonds will continue to do better than cash, just like they always have?"

I do not necessarily accept the premise of the question in that bonds *have* outperformed stocks over significant periods of time. Moreover, we do not have anything like enough data to be terribly confident about any alleged trend going forward. However, to the extent that this question is a valid one, my answer is "probably not" with respect to the intermediate term and "I have no idea" with respect to the longer term. I agree that it is foolish to ignore history. But history should not be turned into ideology. I choose to remain skeptical going forward.

Edwards thinks that investing requires faith of a sort – an ideology. But I remain an investing agnostic. I believe only in what can be shown to work. I also recognize that what works today will not necessarily work tomorrow. Therefore, all financial plans must be evaluated and constantly re-evaluated in light of these facts.

In the world of investing, I only believe in what works.

Bob Seawright is chief investment and information officer for Madison Avenue Securities in San Diego.

Critics fear government isn't promoting annuities enough

By Liz Skinner

The government is hoping that its upcoming support for lifetime-income solutions such as annuities will encourage companies to add these options to their retirement plans for employees, but some worry that Uncle Sam isn't giving a big-enough push.

The Labor Department early next year plans to propose rules on how retirement plan statements should show the benefits that a stream of income can offer a retiree, compared with taking a single lump-sum payment. The Treasury Department plans to offer guidance before the end of the year on how plan sponsors can educate participants about annuities without crossing the line into providing investment advice, officials said.

The efforts are part of the government's overall goal to curb the number of individuals who are likely to outlive their retirement savings as people live longer and are more dependent on defined-contribution plans, where employees direct their investments. Companies mostly have stopped offering defined-benefit plans, which promise retirees a defined monthly payment.

The need for a solution is great. About 47% of Americans born between 1948 and 1954 are at risk

"ANNUITIES ALLOW people to have a fixed income that lasts a lifetime."

John Little
Senior vice president
Insured Retirement Institute

being unable to afford basic expenses and uninsured health care costs through retirement, according to the Employee Benefit Research Institute.

"Having a requirement that statements show what a monthly payment would be like would spur savings," said John Little, the Insured Retirement Institute's senior vice president for federal affairs. "When people see the lump sum, they think, 'Wow, I have a lot of money,' but annuities allow people to have a fixed income that lasts a lifetime."

This year, the government began including on its statements for federal employees' Thrift Savings Plan the value of a monthly payment for life, based on the account balance. It notes that the amount "is for educational purposes only," and recommends that participants look into "all of the TSP withdrawal options."

This change has boosted savings rates, Labor Department officials said.

The department's proposal will specify how to calculate monthly-income equivalents for 401(k) statements, such as whether those values will be based on the current account balance or whether the estimate will be based on projected asset growth and additional contributions, said Michael Davis, deputy assistant secretary for the agency's Employee Benefits Security Administration.

'SAFE HARBOR'

But more is needed before companies widely offer lifetime-income products within the retirement plans they offer employees. Surveys show that just a small number of DC plans, probably 1% or less, currently offer annuitylike options.

The Labor Department will need to offer some "safe harbor" protec-

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Indexed Annuities Increase Retirement Success to 97.5%

JANUARY 2014
BY: DOUGLAS WOLFF
By Douglas Wolff

Before 2007, whenever Americans were asked about their retirement goals, the most common responses boiled down to "retiring early" and "accumulating as much wealth as possible." Pose the same question today, however, and the dominant answers are more likely to be "dealing with health care expenses" and "not outliving my income." As an industry, we have a great opportunity to respond to this attitudinal shift by developing a new and improved game plan for helping clients generate retirement income.

New approaches combining traditional vehicles with innovative income guarantees can reduce the risk of failure and improve the odds of creating a successful income-generating strategy. More specifically, retirement income plans using mutual fund systematic drawdowns and an indexed annuity (IA) with guaranteed lifetime withdrawal benefits (GLWB) may be a great addition to an advisor's playbook.

Variable Annuities and Mutual Funds Not Fully Up to the Task

Americans are concerned about health care expenses, the volatile

equity markets and the thought of living 30 to 40 years in retirement. In fact, a substantial percentage of your pre-retiree and retiree clients – roughly one third to one half, according to recent surveys by major organizations – said they are no longer focused exclusively on the size of their retirement accounts. Instead, their chief concerns are safety of principal and achieving a lifetime income stream. This new emphasis on safety of principal, along with providers' de-risking and re-pricing, has made variable annuities (VAs) less attractive to aging baby boomers. Today's income-oriented retirement portfolios demand a different balance of growth and security than VAs, even those with lifetime benefits, can provide effectively.

Investors' caution with regard to VAs as retirement income tools is well-deserved. A leading independent actuarial consulting firm studied the effectiveness of three popular investment strategies in creating a sustainable retirement income for various joint and single life retirement scenarios. Success was defined as annually meeting the needs of an inflation-adjusted income. The study assumed a $1 million investment, an initial withdrawal rate of 4.5 percent and annual inflation adjustment every year until death. The base case analyzed systematic withdrawals from hypothetical mutual fund portfolios comprising a combination of equity and fixed income. Next, the mutual fund portfolio was paired with an annuity providing a GLWB. Using a Monte Carlo analysis, the study sought to determine the best allocations to optimize chances for success in each case. The resulting portfolios from the study were graphed to create an efficient frontier representing those points with optimal risk/return trade-offs. Risk was defined as the probability of running out of money while still alive. Return was defined as the average amount of remaining assets upon death.

Mutual Fund Spend-Down Strategy

The results were consistent among the joint and single life scenarios, and for this article, we will use the results of the joint life study to illustrate the point. Not surprisingly, a balanced portfolio of 60

percent equities and 40 percent fixed income provided a maximum probability of success (82 percent) when using a mutual fund-only investment strategy. In short, the best-case scenario for a mutual fund-only strategy suggested that one in five retirees could run out of retirement income prior to death.

Mutual Fund Spend-Down Strategy + Variable Annuity

Combining the mutual fund strategy and a VA with GLWB revealed that a 45 percent allocation to the VA and, for the remaining 55 percent of assets, a fund portfolio of 55 percent equities and 45 percent fixed income would be the most effective or optimal mix. However, the likelihood of success increased by just 3 percent to 85 percent. Withdrawals from the mutual fund portfolio would provide income during the first 10 years. Thereafter, lifetime benefit withdrawals from the VA combined with withdrawals from the mutual fund portfolio would fund the income stream. While there is improvement over the mutual fund spend down alone, there is still a one out of six failure rate – meaning a one in six chance that your clients could outlive their retirement income.

Today's IAs Enhance Odds of Success to 97.5 Percent

Finally, the study examined mutual fund systematic withdrawals paired with a contemporary IA with GLWB. The probability of success was greatly enhanced, to 97.5 percent, when a 50 percent allocation to the IA was combined with a mutual fund mix of 25 percent equities and 75 percent fixed income. As with the VA/mutual fund strategy, mutual funds would provide income for 10 years before lifetime withdrawals from the IA were initiated. With clients seeking retirement income, this strategy provides the greatest probability for success, moving from a one in five or one in six failure rate to a one in 40 failure rate. That is a significant improvement as compared to the VA with GLWB strategy.

A Well-Timed Solution

The more attractive results for the IA/mutual fund combination are no accident. In recent years, IAs have been re-engineered to provide the combination that aging boomers moving from asset accumulation to asset decumulation need most: guaranteed future payout over time coupled with liquidity and upside opportunity. Increases in account values are achieved via crediting options linked to performance of a stock or bond market index but, in most cases, there is no downside risk to the investor from market movements.

The bulk of the premiums are invested in the insurer's general account, which gives the insurer greater control over the assets and makes account values less volatile. The insurer's hedging efforts are centered more on longevity risk, which is predictable with a fair degree of accuracy, and less on market risk, which can be highly unpredictable and volatile. Traditionally estimated by actuaries, longevity risk is less costly to manage, and the cost savings can be passed along to consumers in the form of more attractive and/or lower cost benefits, including specific future payout levels that (generally) are higher than those guaranteed by today's VAs. Simply put, IAs offer retirees the best of several worlds: a guarantee of principal, the potential of market-linked growth with no market-related risk of principal loss and the ability to generate retirement income without having to annuitize.

More Options for Tailoring the Strategy to the Client

Providing well-reasoned, compelling retirement income options is critical, as clients require a "game-changing approach." Investors are demanding a smarter balance of growth and security to achieve their retirement goals effectively and to create a sustainable stream of lifetime income. As IAs continue to gain share, the popularity of guaranteed income riders

attached to IA products is increasing. Our research demonstrates that the highest probability of success in creating sustainable income throughout retirement results from combining a mutual fund drawdown and an IA with a GLWB. At its highest probability of success, a 97.5 percent success rate was achieved, which translates to a failure rate of one out of 40. That compares to a one out of five failure rate for mutual funds alone and a one out of six failure rate for a mutual fund drawdown plus a VA with a GLWB.

The significant improvement in the probability of success should capture the attention of pre- and post-retirees. Positioning clients for little to no market risk, a guarantee of principal, potential for portfolio growth and retirement income requires a series of well-executed plays. Improved retirement outcomes, flexibility to respond to a variety of needs and market conditions, and retaining control of the assets are driving today's retirement game. All these goals are achievable by combining the mutual fund drawdown strategy with a contemporary IA with GLWB.

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