

# RETHINKING RETIREMENT SPENDING ADVICE

---

How 'Probability of Success' Fails Retirees

Justin Fitzpatrick, PhD, CFA, CFP®

# | WHAT RETIREES WANT

## **Top Priority**

“Live the best life I can”

## **NOT Top Priority**

“Leave (lots of) money behind  
when I die”

## | A SILENT POLL

- What do you think is a reasonable *probability of success* for a client retirement plan at retirement?
- During a market downturn, at what *probability of success* level would your clients start to get worried?
- During a market downturn, at what *probability of success* level would you start to get worried for your clients?

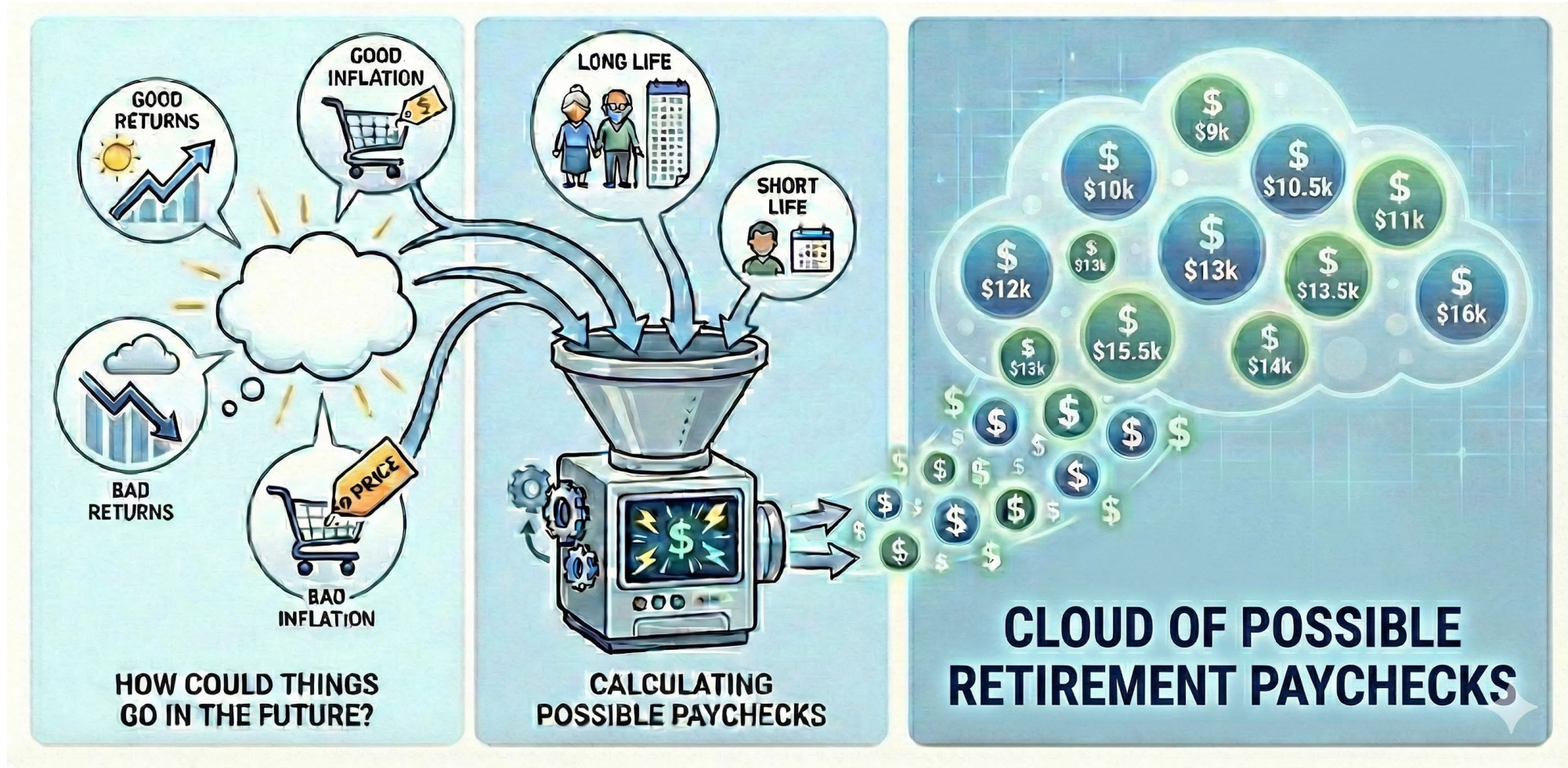
## | A NEAR-RETIREMENT PLAY IN ONE SCENE

*Advisor:* So, how much would you like to spend in retirement?

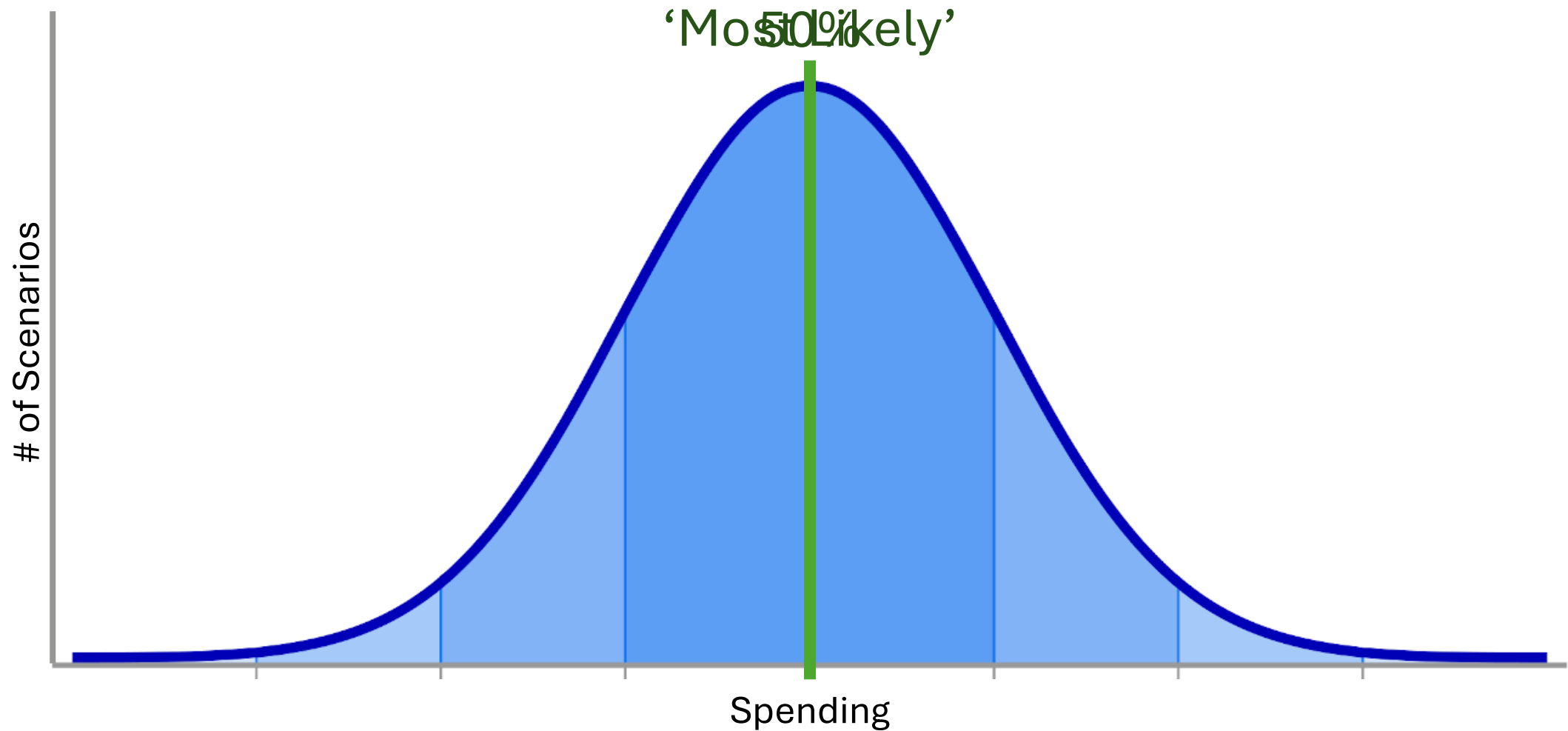
*Client:* Well, how much can I have?

*Advisor:* ...

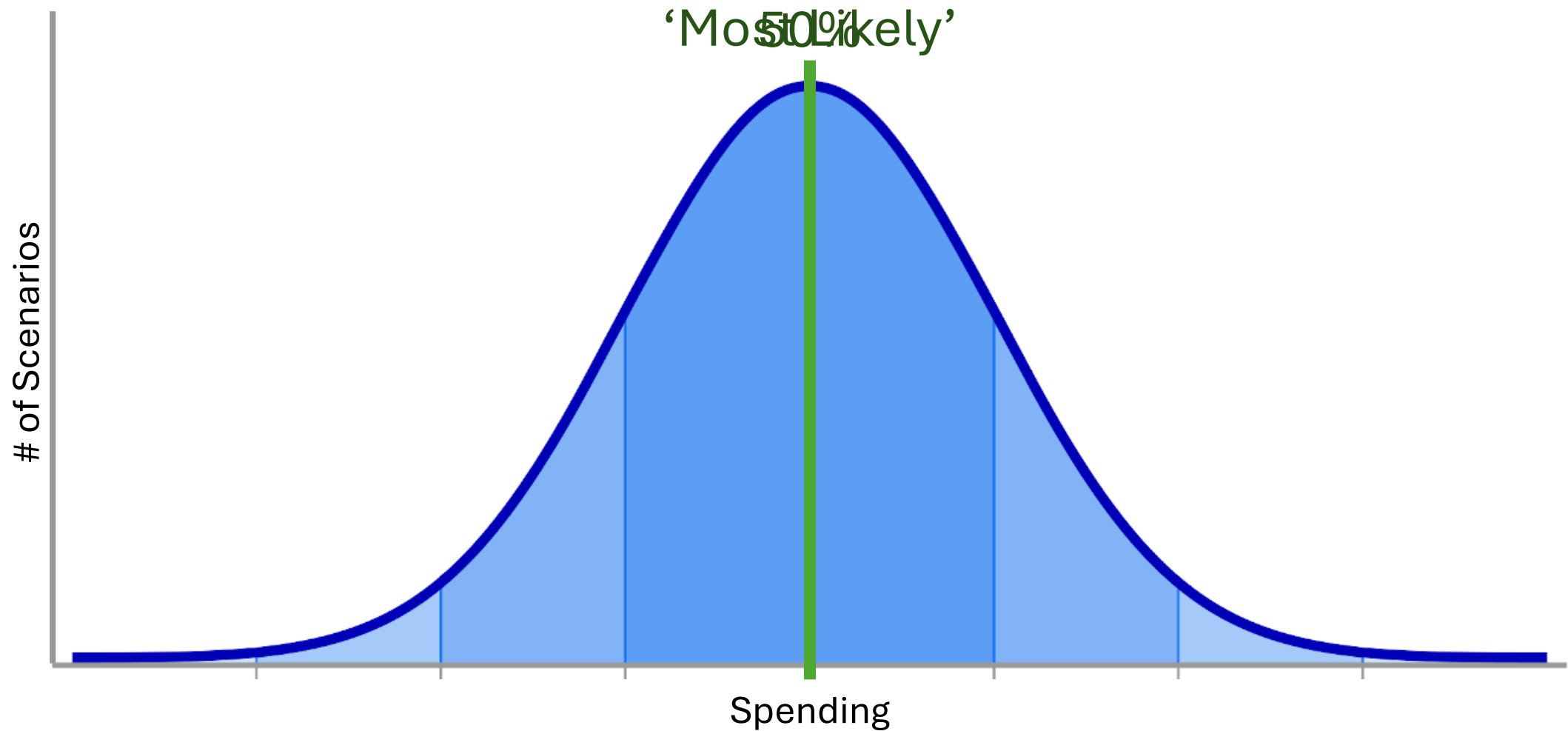
# HOW DOES FINANCIAL PLANNING ANALYSIS WORK?



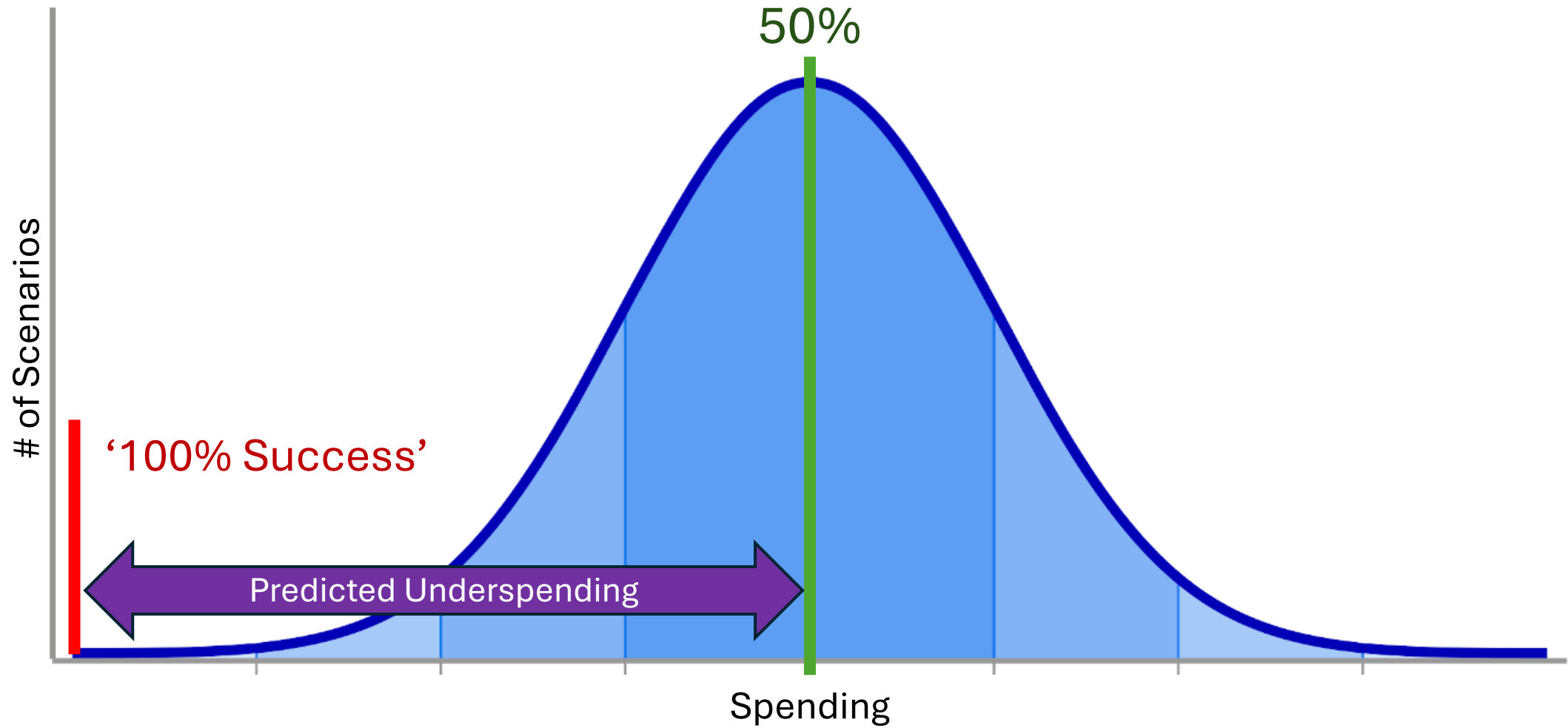
# WHAT'S THE 'PROBABILITY OF SUCCESS' OF THIS SPENDING?



# WHAT'S THE 'PROBABILITY OF SUCCESS' OF THIS SPENDING?



# WHERE IS '100% SUCCESS'?



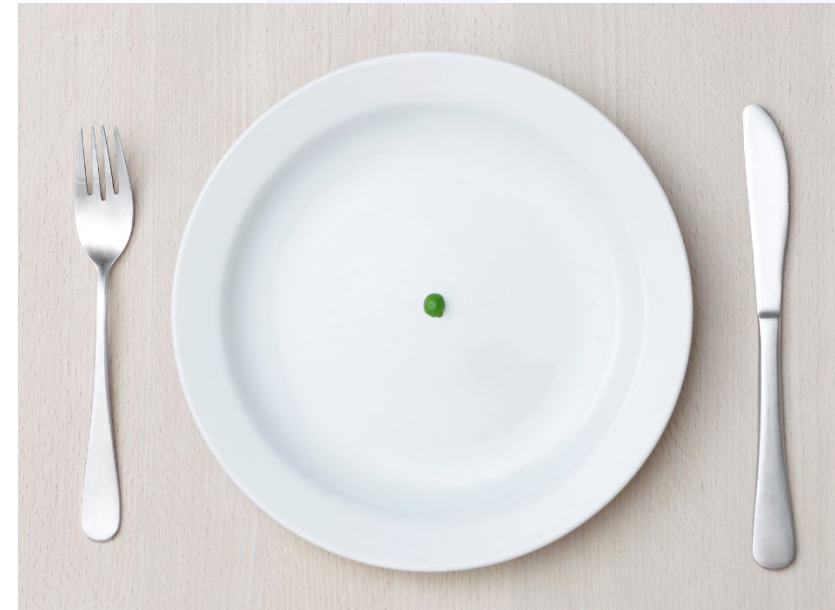
# PROBABILITY OF SUCCESS IS NOT WHAT CLIENTS THINK IT IS

What “Success” Means to You and Your Clients



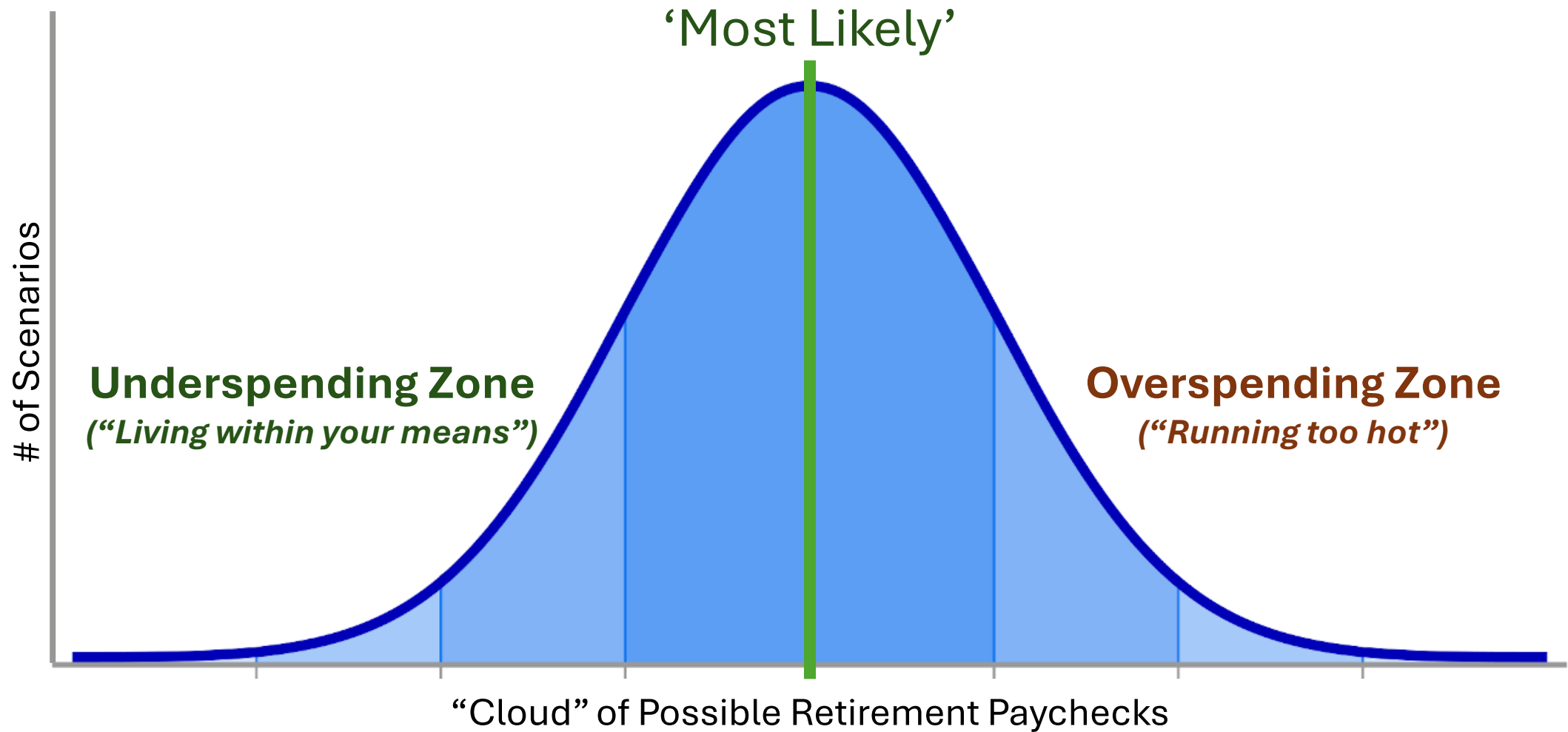
“Live a great life”

What “Success” Means in *Probability of Success*



“Spend well below your means, worry while you do it, and leave lots of money behind when you die”

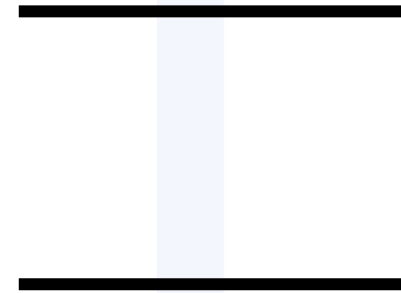
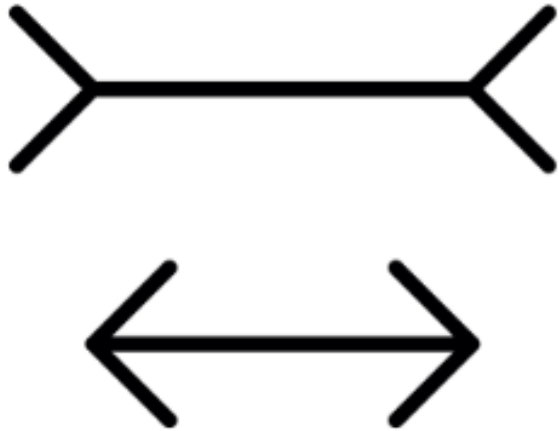
# HOW MUCH CAN I SPEND?



100% Probability of ~~Success~~

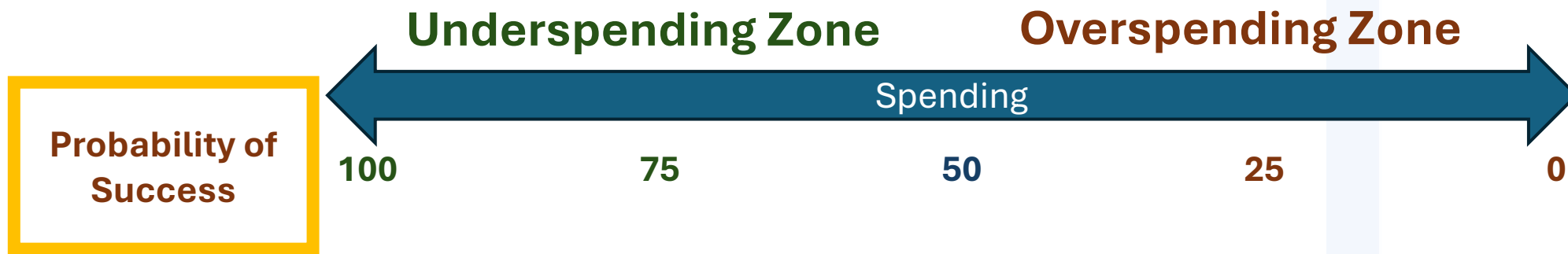
*Regret*

# | WHICH LINE IS SHORTER?

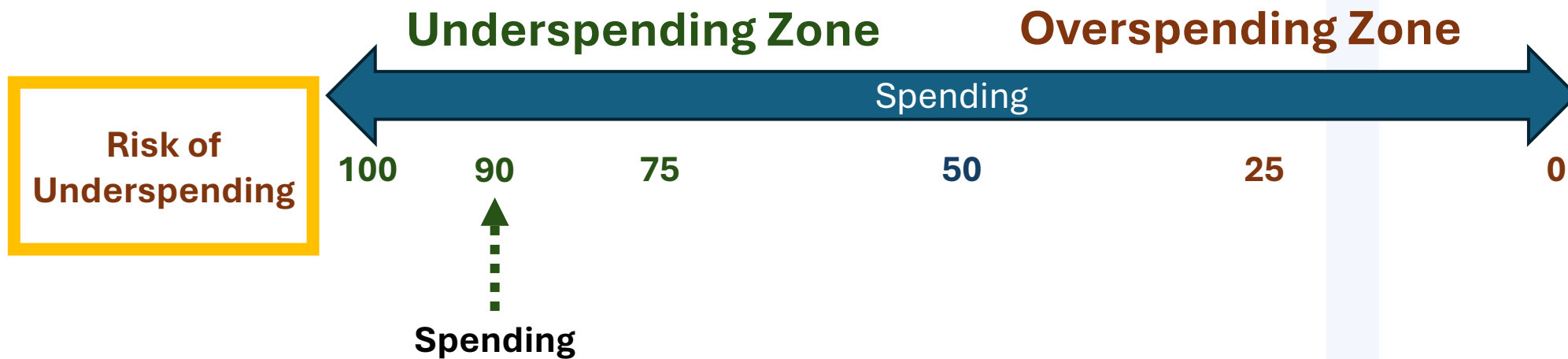


*Illusions don't disappear once you know about them.*

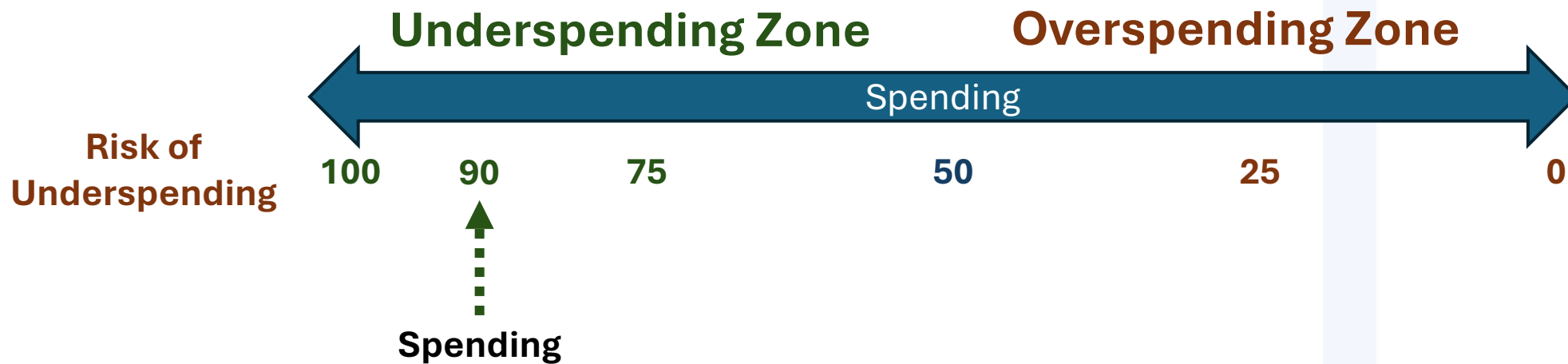
# | *PROBABILITY OF SUCCESS IS MISLEADING*



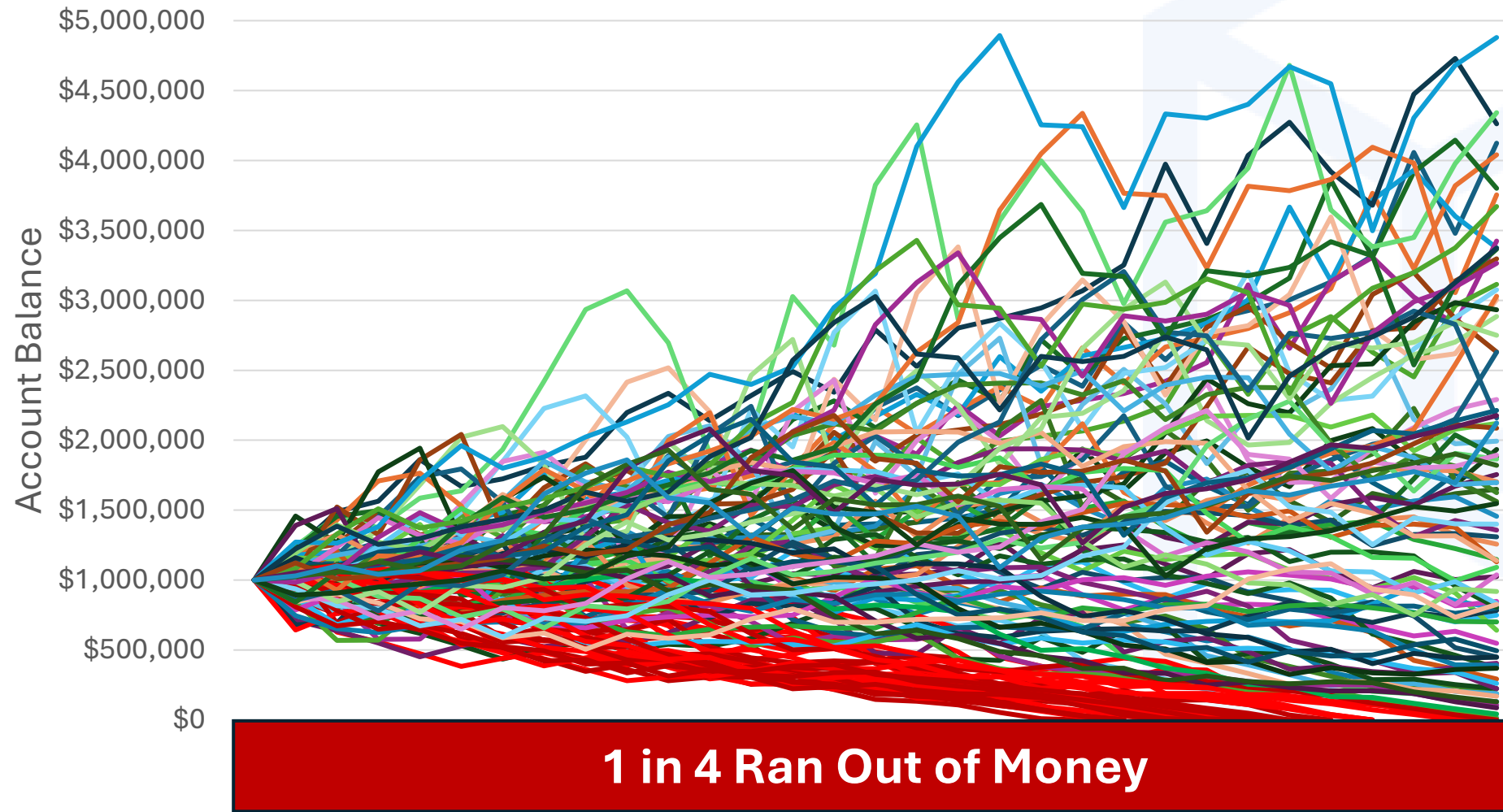
# | PROBABILITY OF SUCCESS IS MISLEADING



# | PROBABILITY OF SUCCESS IS MISLEADING



# PROBABILITY OF SUCCESS IS SCARY



# PROBABILITY OF SUCCESS SHEDS CREDIBILITY

The table below shows an upside case, the median case, and a downside case from the 1000 trials.

Case	Percentile	Total Portfolio Assets
Upside (Outperform)	97.5	\$498,250,145
Median (Moderate)	50.0	\$42,208,969
Downside (Underperform)	2.5	\$712,064

This Monte Carlo simulation is successful in **88%** of the trials resulting in at least **\$3,105,053** of desired remaining assets.





## Scores vs Directions:

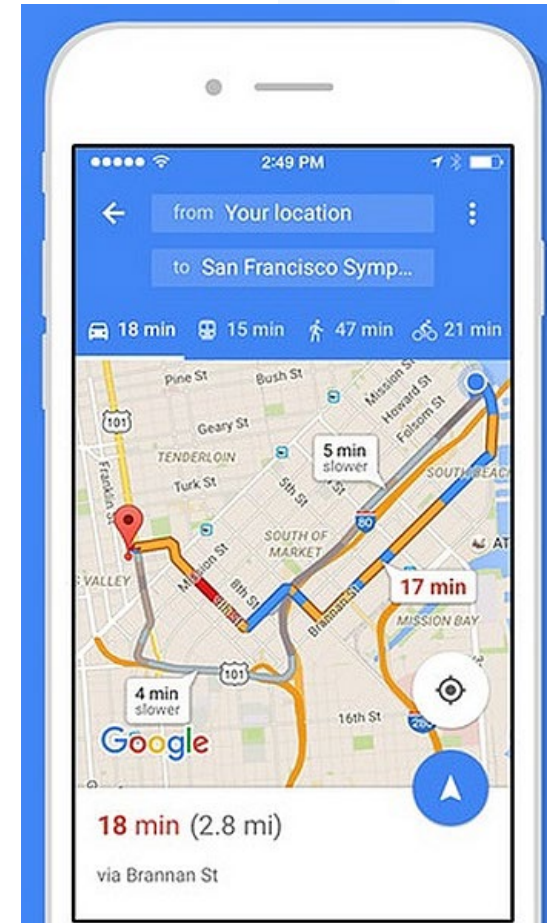
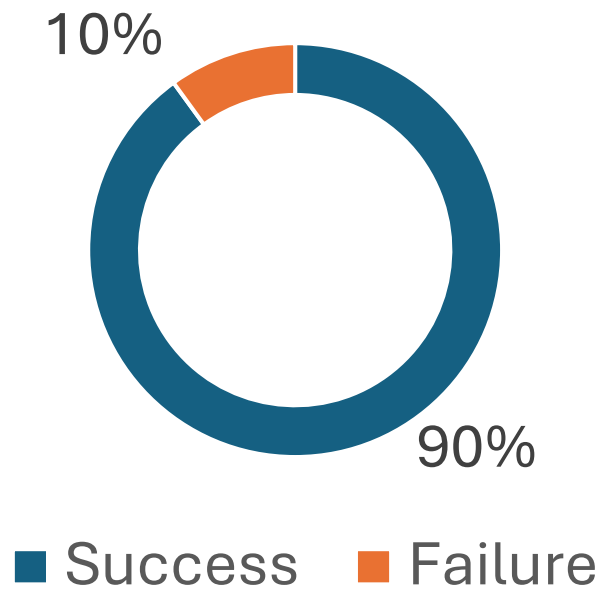
---

*How much can I spend?*

**No one goes to a financial planner asking what their *Probability of Success* is.**

**Probability of Success is not advice. It's a (misleading) score.**

# SCORES VS DIRECTIONS



## | WHAT RETIREES WANT

*“I don’t want to spend too much – or too little!”*

*“I want to spend an amount that helps me live the best life I can”*

*“I want to live within my means – not way below my means!”*

*“I don’t want to feel like I’m in trouble when I’m not!”*

# | WHAT RETIREES WANT

## Top Priority

“Live the best life I can”

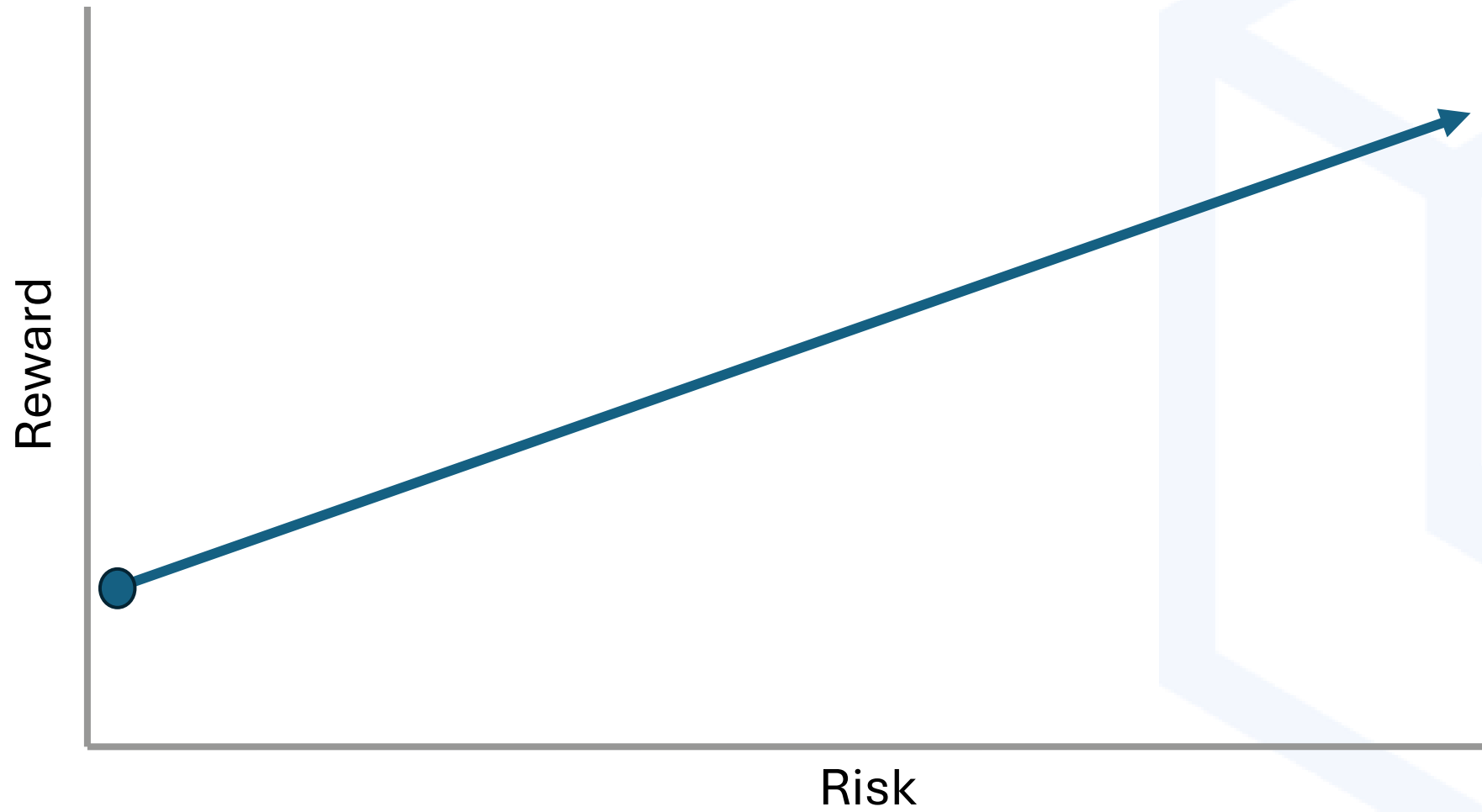
What Framework can  
Target the Real Goal?

## NOT Top Priority

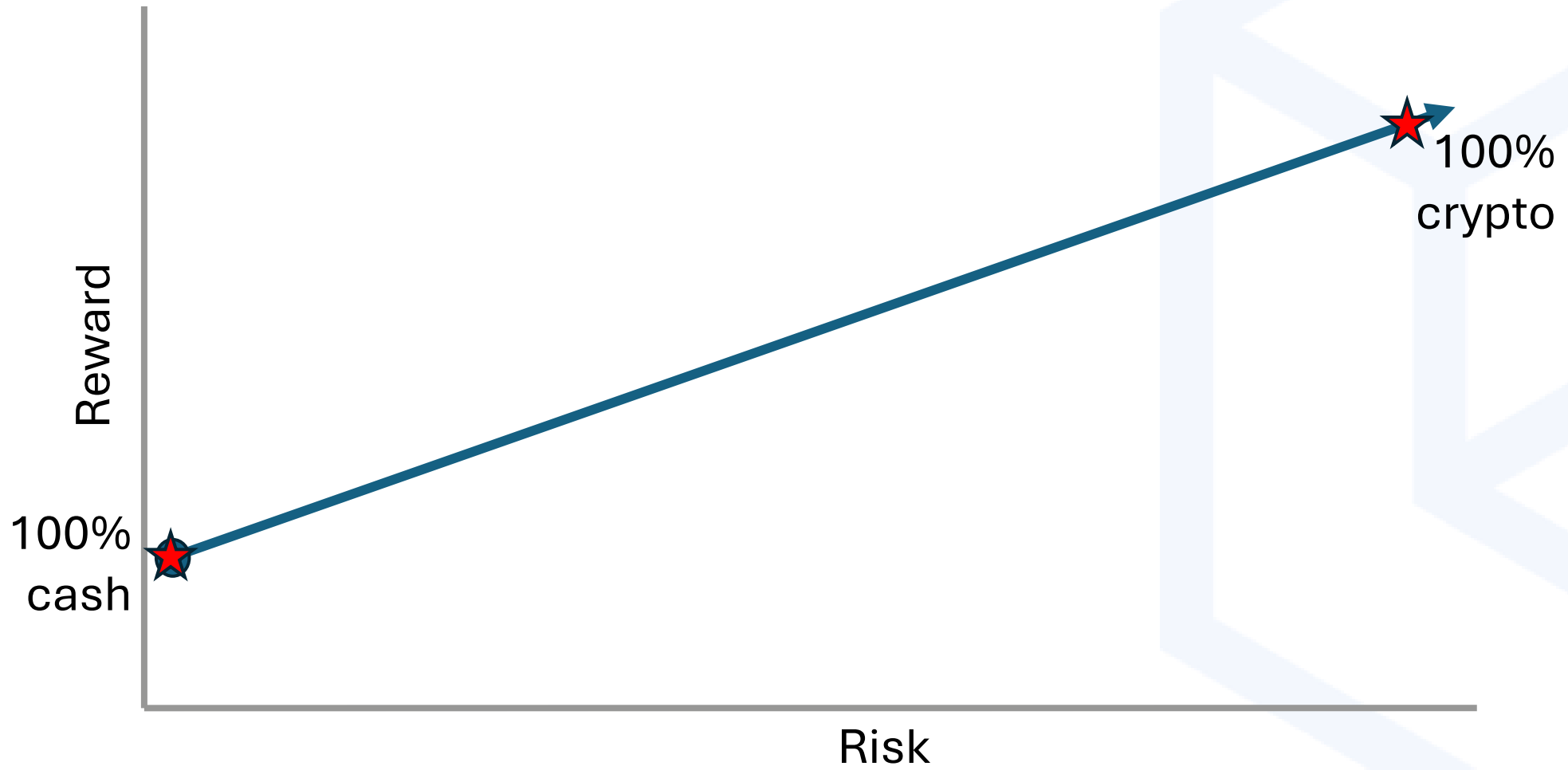
“Leave (lots of) money behind  
when I die”

The Goal of  
*Probability of  
Success*

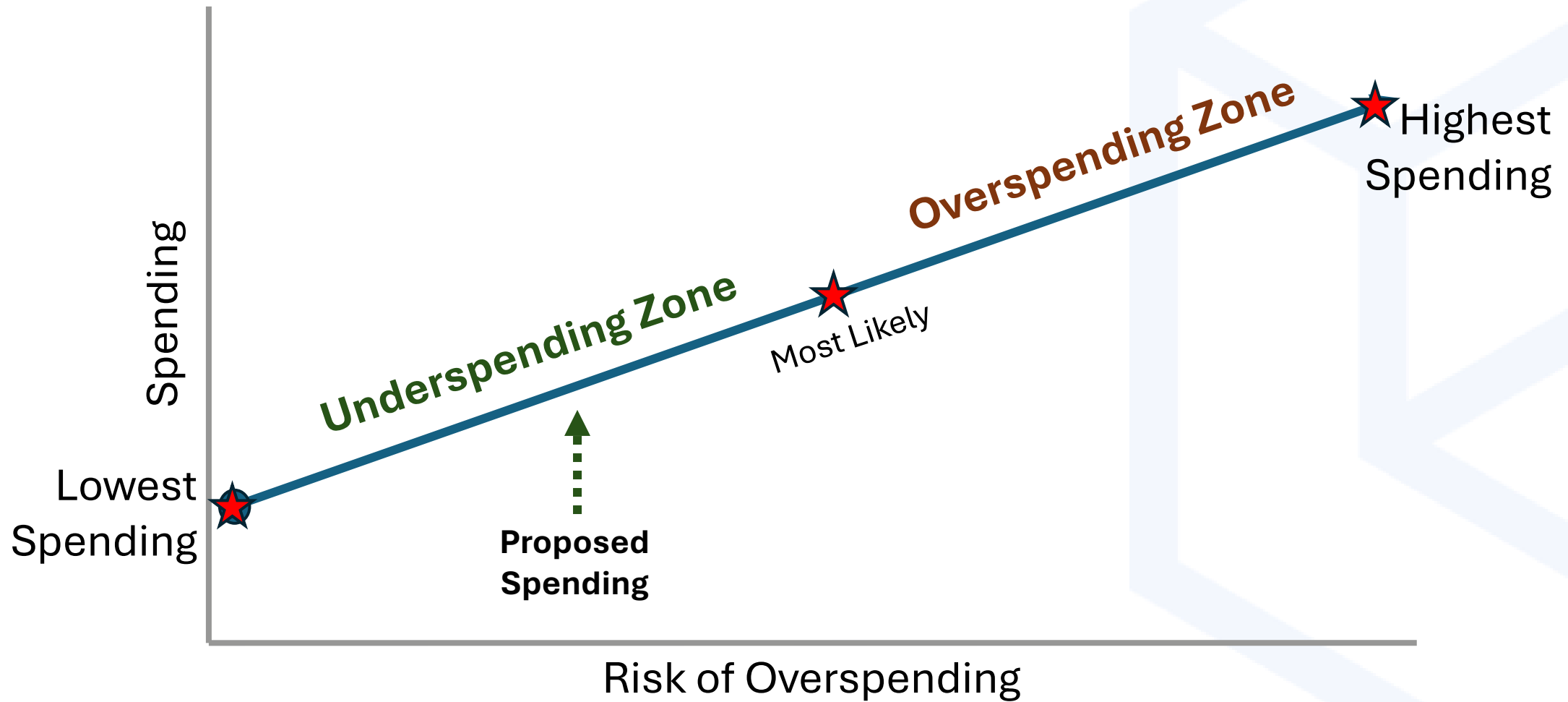
# | BALANCING *RISK AND REWARD*



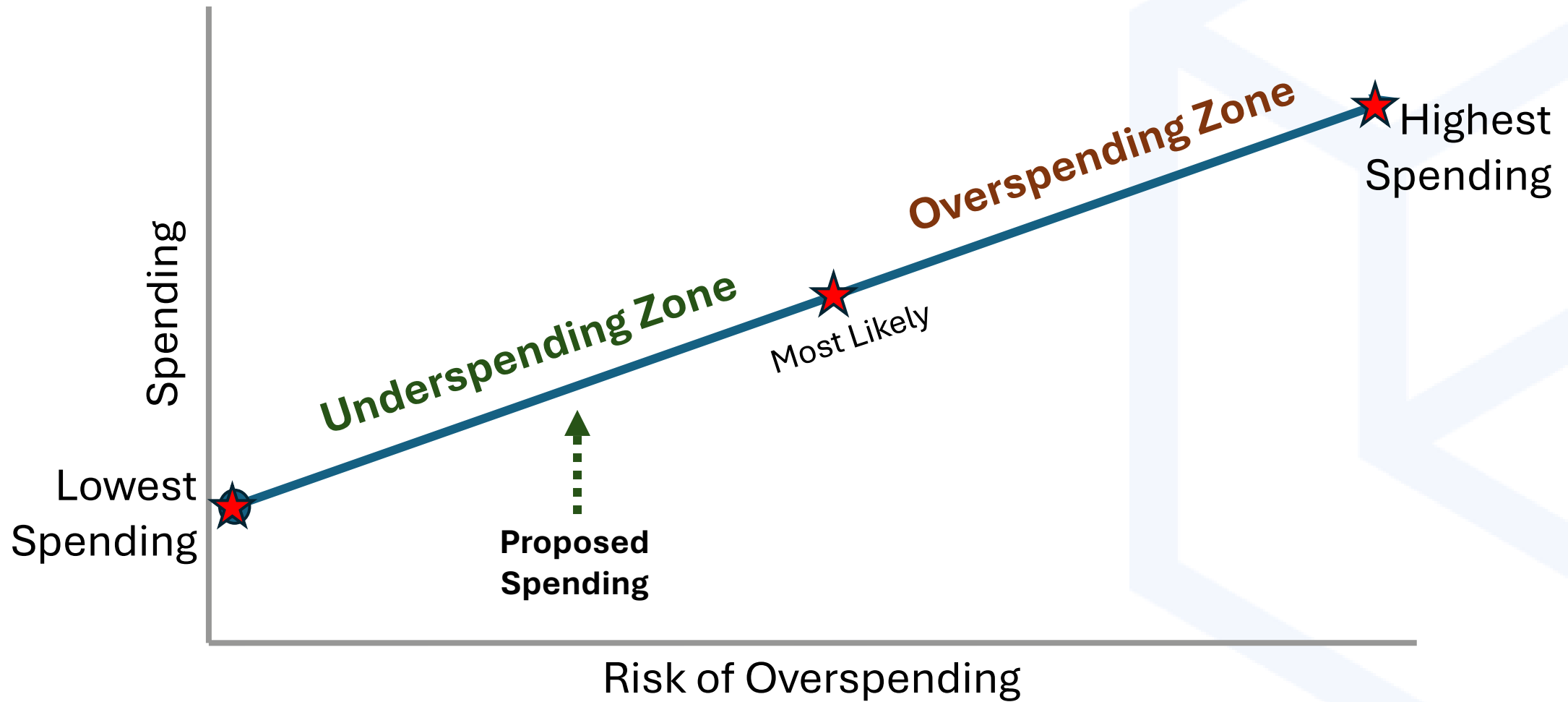
# BALANCING *RISK* AND *REWARD* IN INVESTING



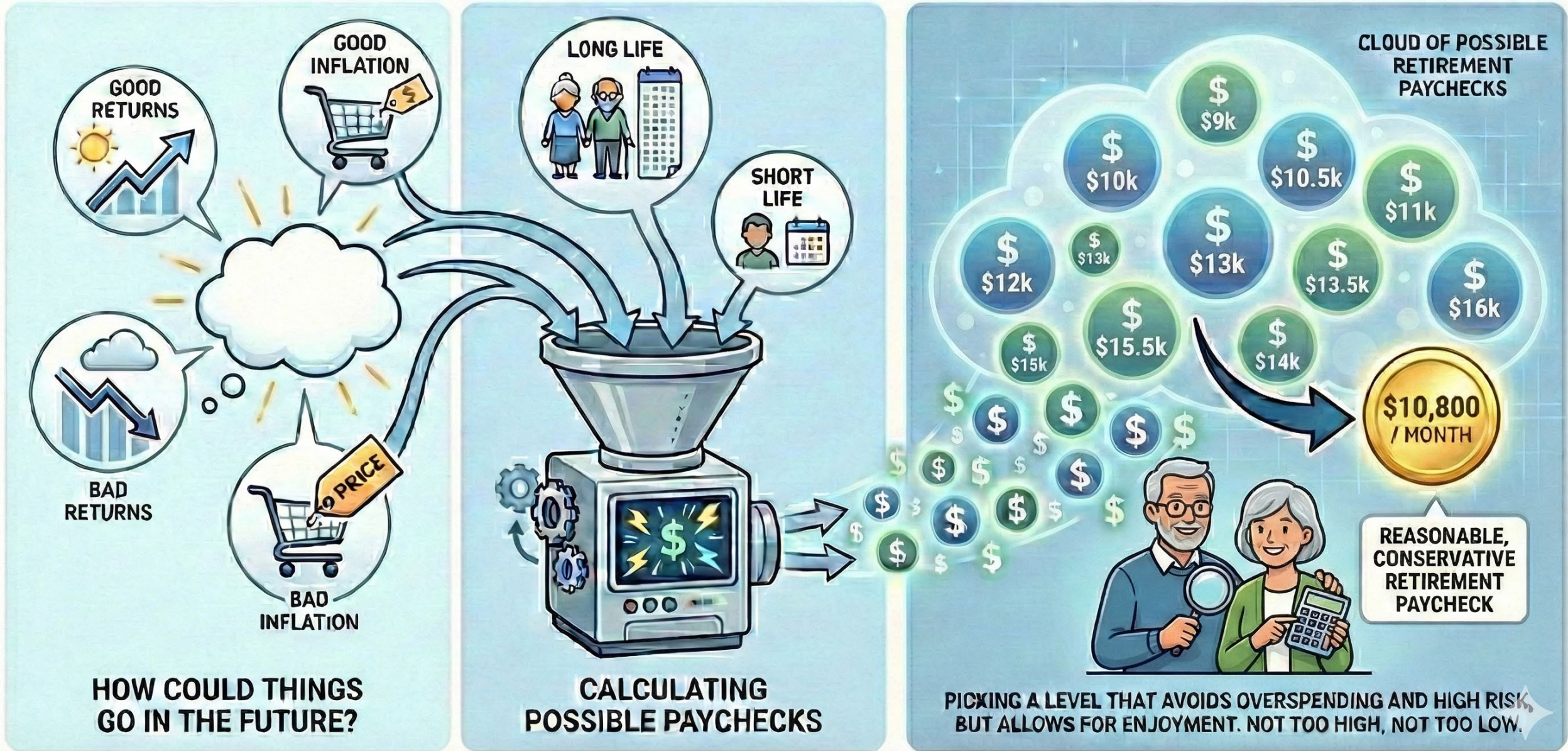
# BALANCING RISK AND REWARD IN RETIREMENT SPENDING



# BALANCING RISK AND REWARD IN RETIREMENT SPENDING



# How do we find your retirement paycheck?



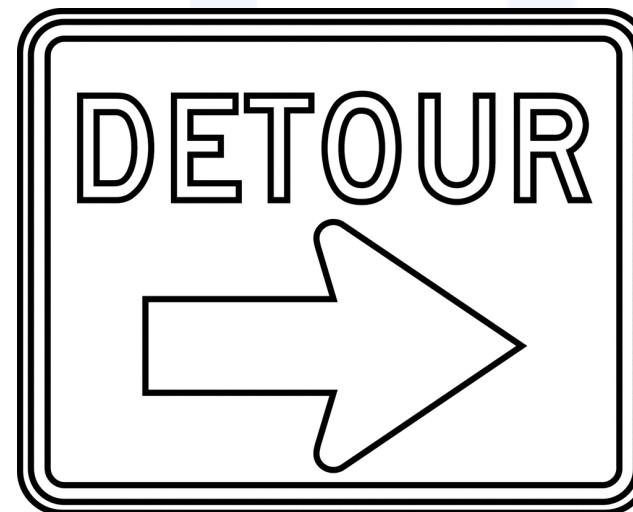
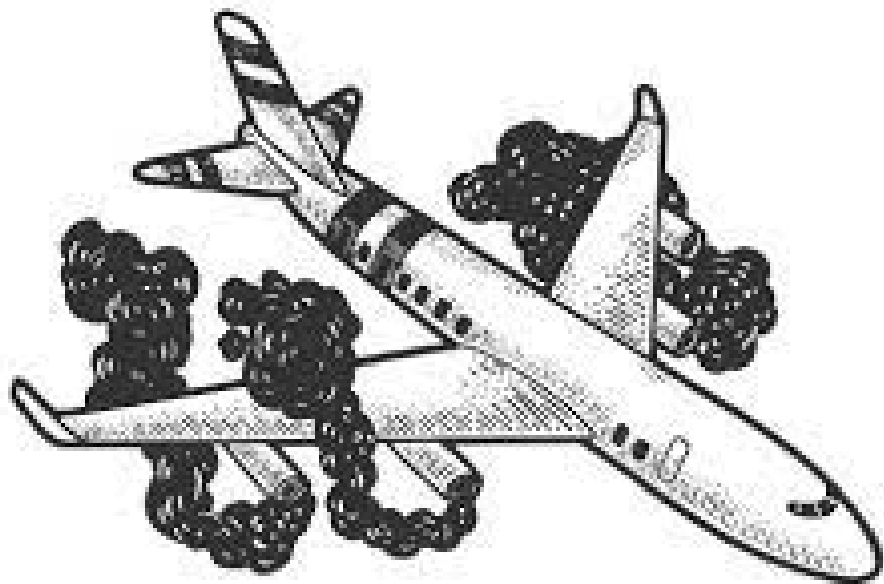


Scores vs Directions:

---

*Should we make a change?*

# WHICH METAPHOR IS BEST FOR RISK IN RETIREMENT?



# THE MESSAGE BEHIND *SUCCESS AND FAILURE*

Even with my advice,  
you might “fail”

You can and should try to  
eliminate risk (= spend less)



# TALK OF 'FAILURE' MAY RAISE CLIENT 'OUTRAGE'

***Risk = Hazard + Outrage***

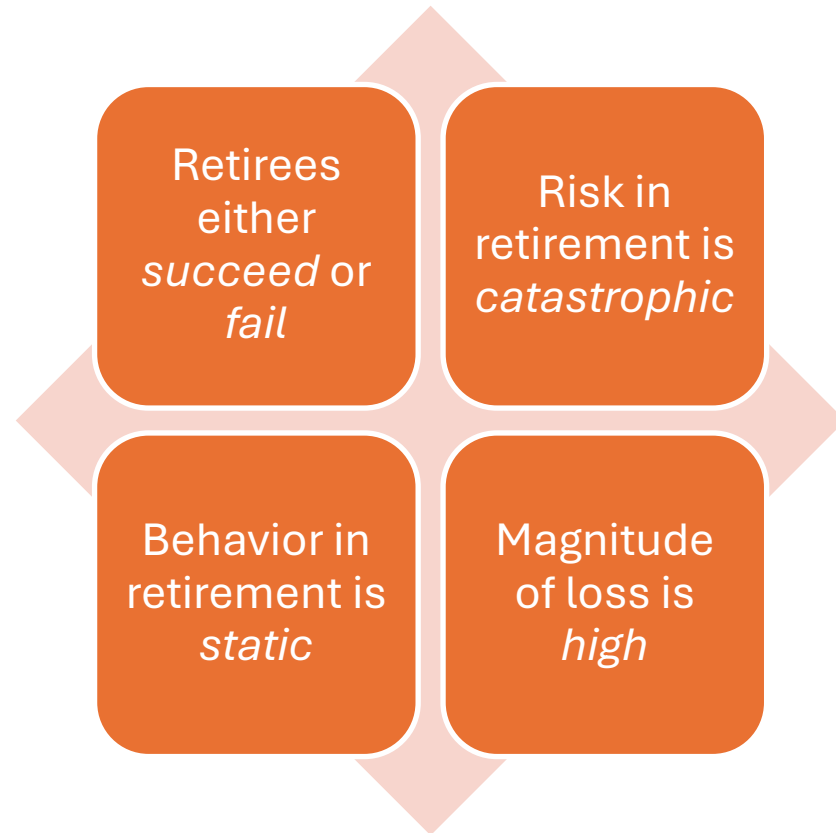
More "Outrage"	Less "Outrage"
<b>Catastrophic</b>	Chronic
Not Knowable	Knowable
<b>Process is Unresponsive</b>	Process is Responsive
<b>Dreaded</b>	Not Dreaded
Memorable	Not Memorable
Coerced	Voluntary
Exotic	Familiar
Controlled by Others	Controlled by Me
Unfair	Fair
I can't trust you	I can trust you
Morally Relevant	Morally Irrelevant
Industrial	Natural

Source: Sandman 2012, *Responding to community outrage: Strategies for effective risk communication*.

Also, see Fitzpatrick 2020, [\*Reducing Retirement "Outrage" Risk With Adjustment-Based Planning And Communication\*](#) (Kitces.com)

# THE TRUTH ABOUT RETIREMENT INCOME RISK

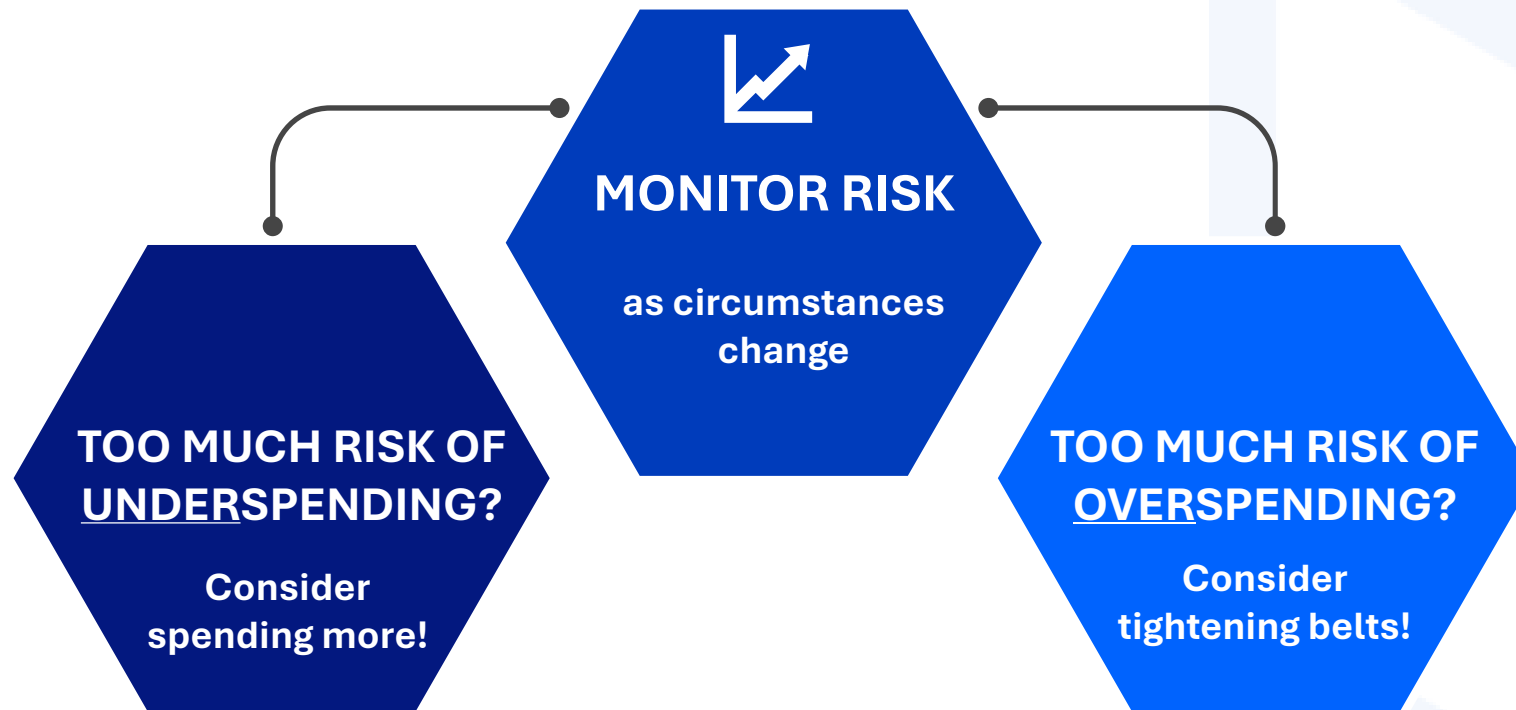
- Success/Failure



- Spending Adjustments



# ADJUSTMENTS WITH (RISK-BASED) GUARDRAILS



# SHIFT FROM *FAILURE* TO *ADJUSTMENT*

More “Outrage”	Less “Outrage”
Catastrophic	Chronic
Not Knowable	<b>Knowable ✓</b>
Process is Unresponsive	<b>Process is Responsive ✓</b>
Dreaded	Not Dreaded
Memorable	Not Memorable
Coerced	<b>Voluntary ✓</b>
Exotic	<b>Familiar ✓</b>
Controlled by Others	<b>Controlled by Me ✓</b>
Unfair	<b>Fair ✓</b>
I can’t trust you	<b>I can trust you ✓</b>
Morally Relevant	Morally Irrelevant
Industrial	Natural

# INFLUENCE OF *ADJUSTMENT* FRAMING ON CLIENT EXPERIENCE

Adjustment-framing (versus success-framing) is associated with:

## Greater positive emotion

- Optimism
- Preparedness
- Confidence during a turndown

## Less negative emotion

- Stress
- Feelings of needing to delay retirement
- Greater understanding of plan results (e.g., likelihood of increasing future spending)
- Differences in perceptions of dynamics related to the client-advisor relationship
  - Advisor trust
  - Informativeness of results provided
  - Appreciation of information provided

Source: *Tharp & Kitces 2020*



Scores vs Directions:

---

*Client Experiences*

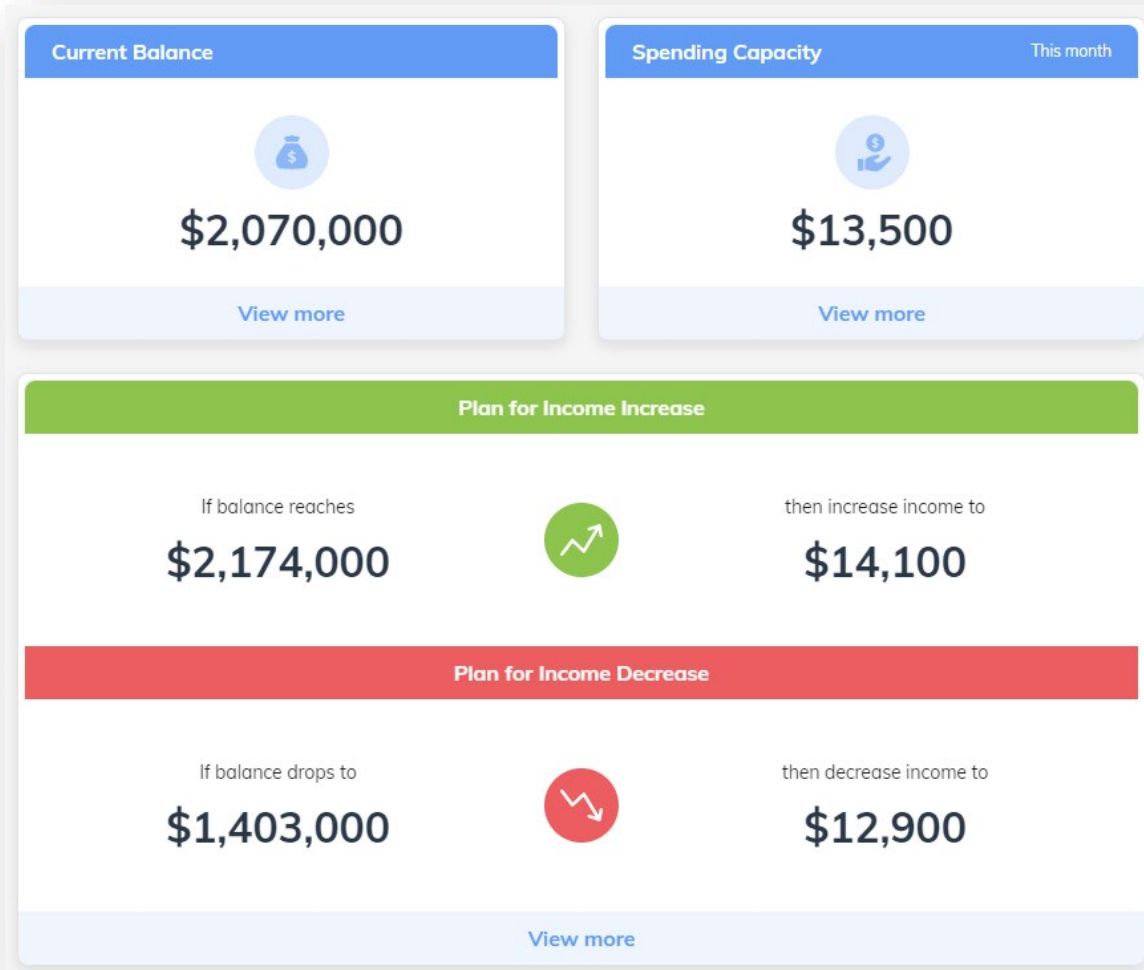
## | A RETIREMENT PLAY IN ONE SCENE

*Client:* I'm nervous about this market. Should we make some changes?

*Advisor:* No. I think it's best to just stay the course.

*Client:* *(THINKS TO SELF) Would we ever make a change? Or will we always just “stay the course”?*

# SPENDING AND ADJUSTMENT GUIDANCE



How much can I spend?

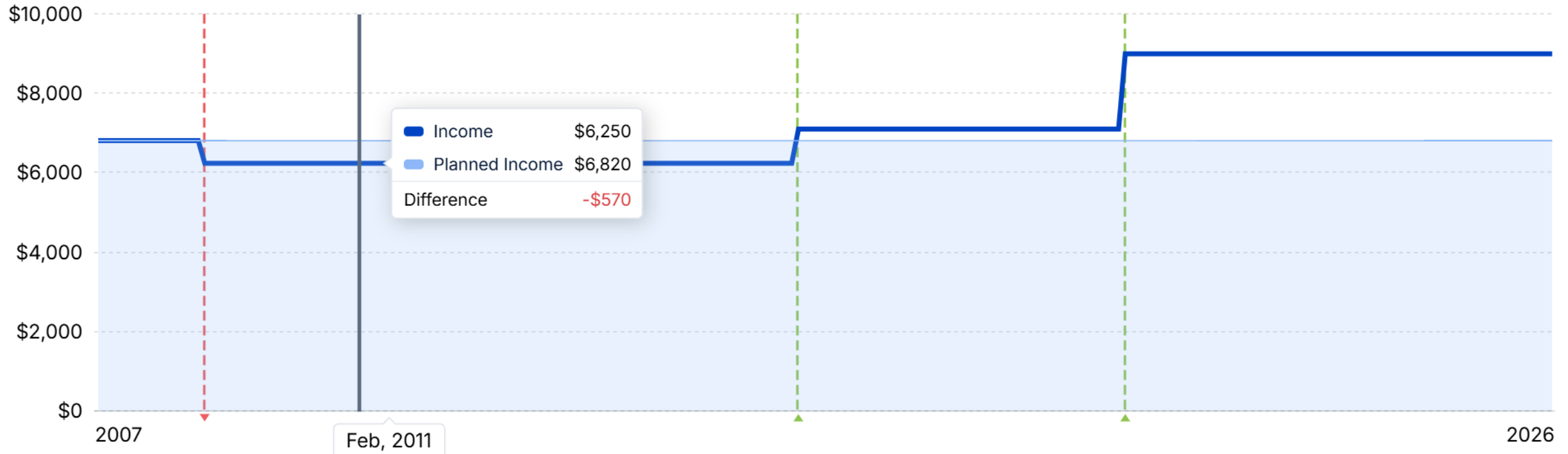
When would I make an adjustment?  
(What would trigger a change?)

How much would I adjust?

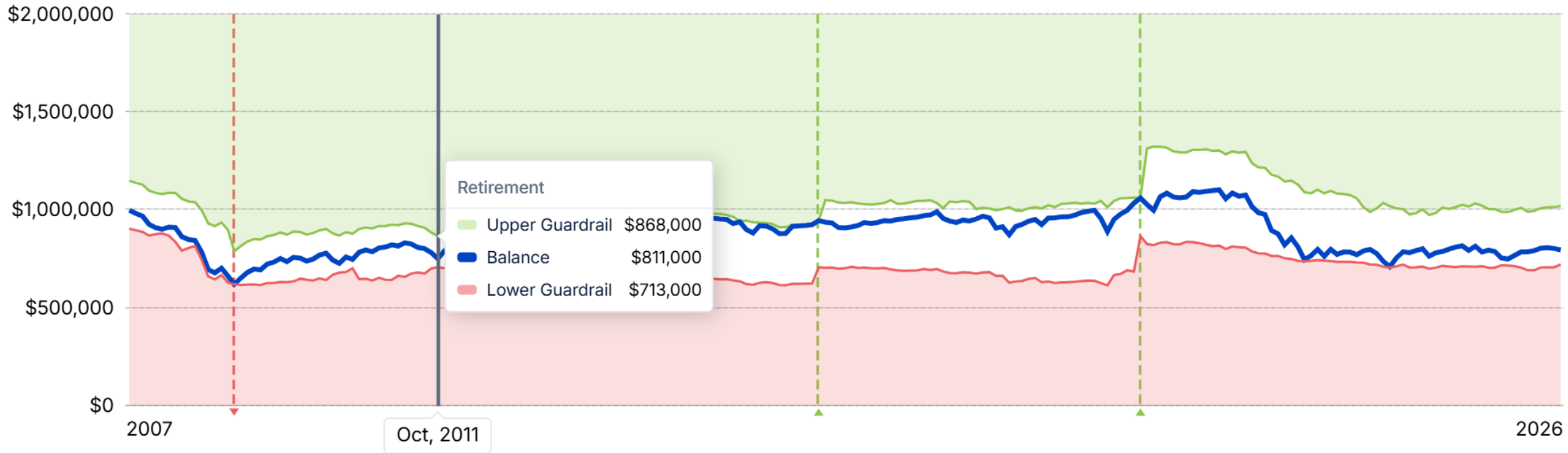
# SHIFT FROM FAILURE TO ADJUSTMENT

Income

Income Planned Income Hit Upper Guardrail Hit Lower Guardrail

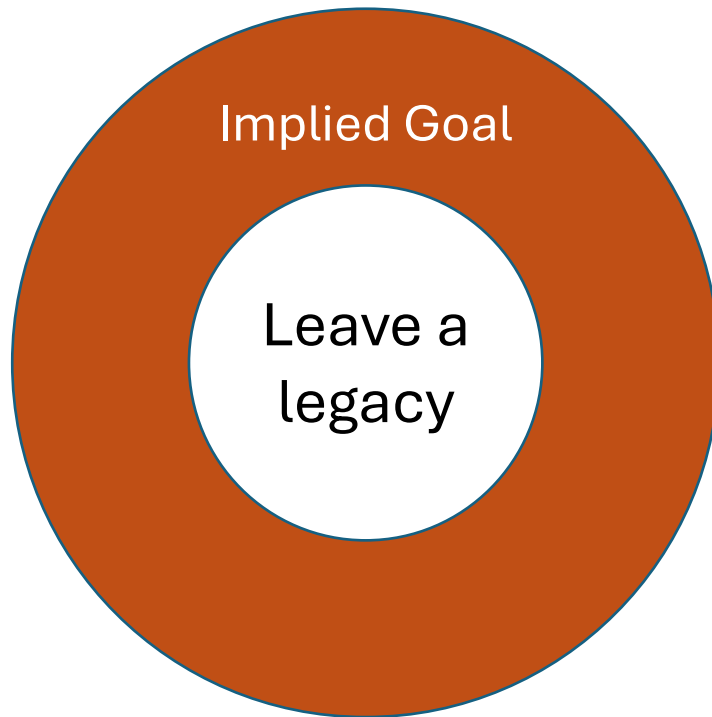


# SHIFT FROM FAILURE TO ADJUSTMENT



# | FRAMING AND GOALS

Success/Failure



Adjustments



# | SHIFTING AWAY FROM FEAR AND ANXIETY...

*Vastly improves client experiences*

*Makes advisor and their teams  
happier*

*Retains clients and expands  
wallet share*

*Converts prospects and drives  
referrals*



# Scores vs Directions:

---

*The Financial Planning Process*

# “STEP 7” MATTERS

What is your demonstrable, documented process for step 7?





[incomelab.io](https://incomelab.io)