

# RETHINKING RETIREMENT SPENDING ADVICE

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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?

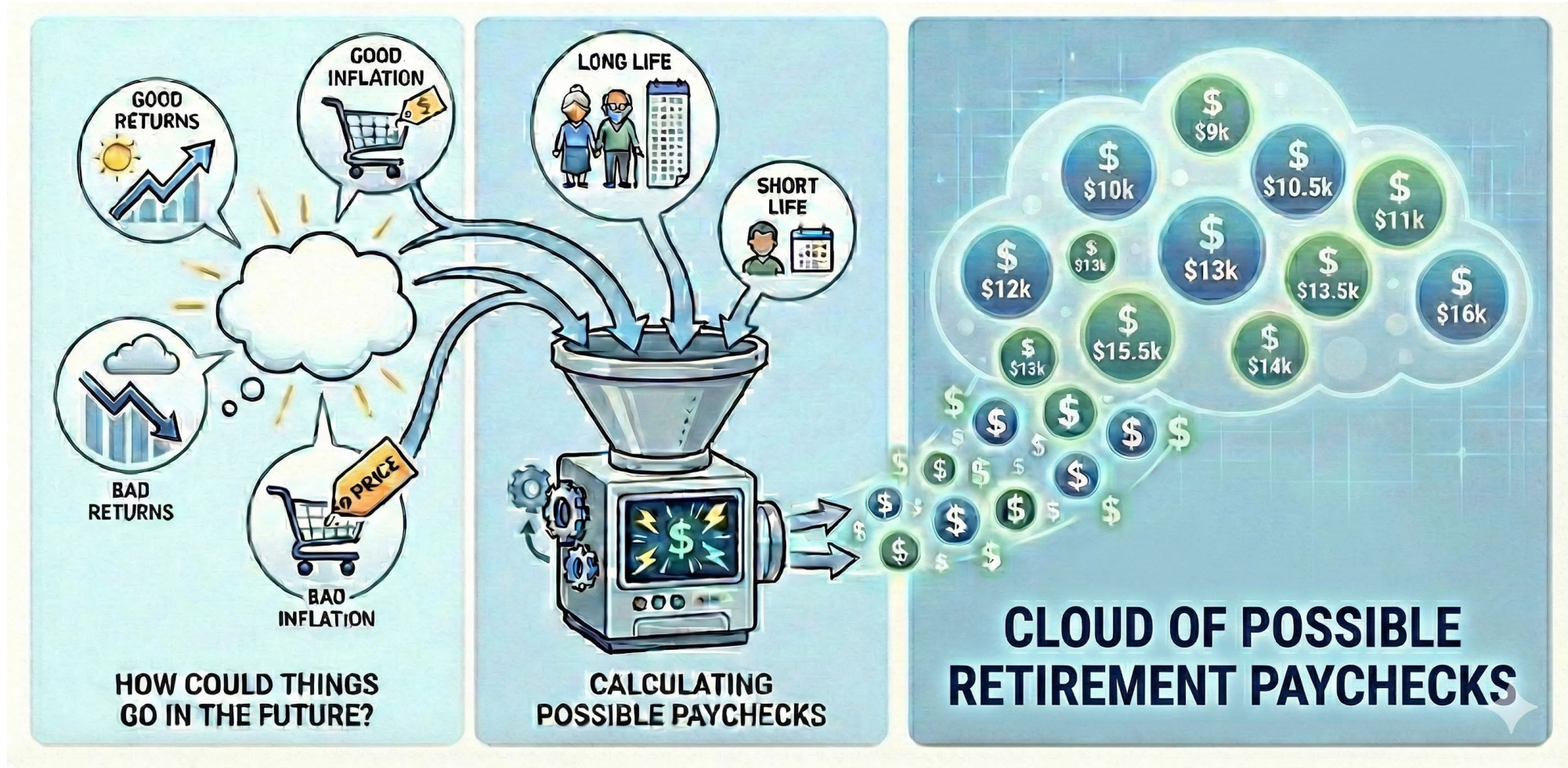
## | A NEAR-RETIREMENT PLAY IN ONE SCENE

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

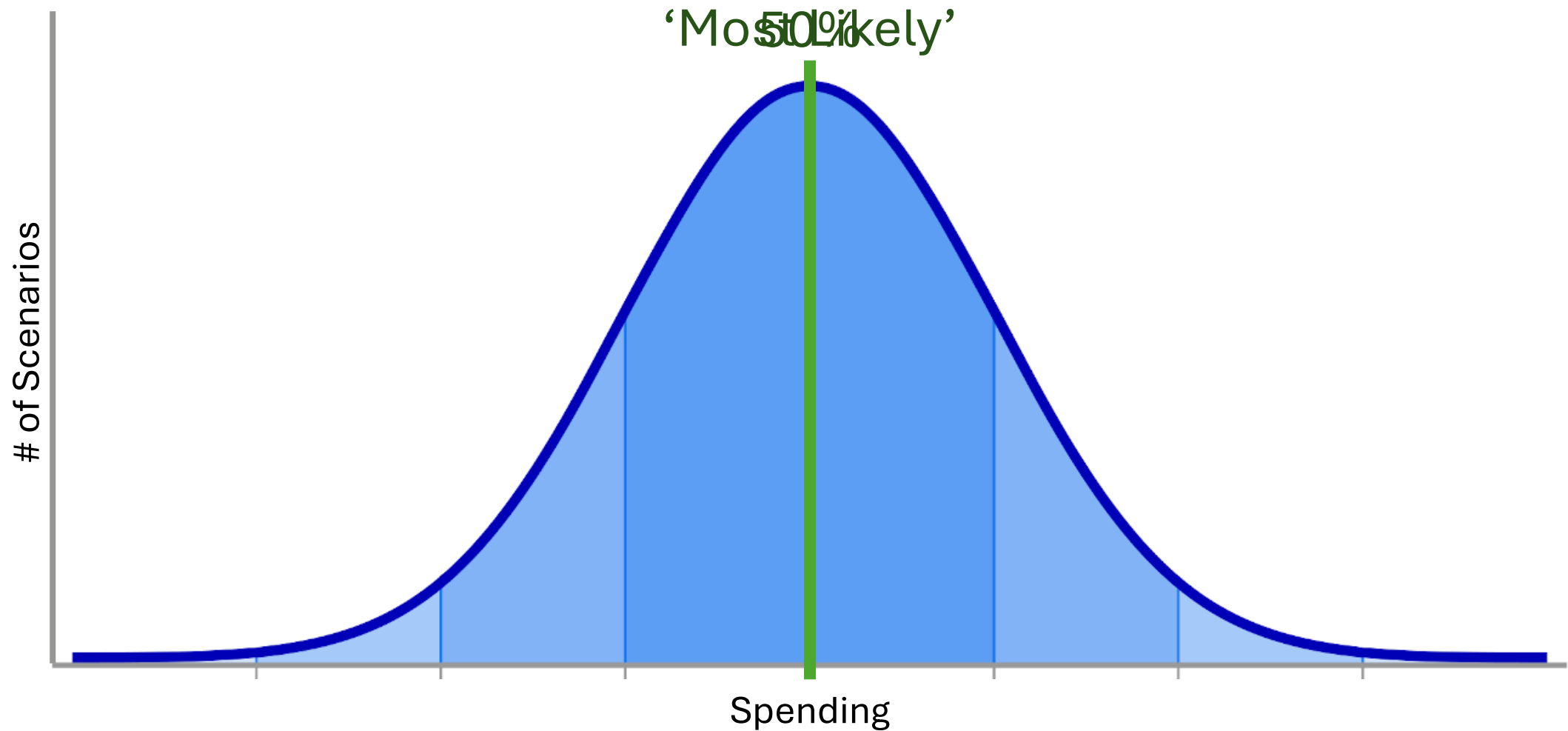
*Client:* Well, how much can I have?

*Advisor:* ...

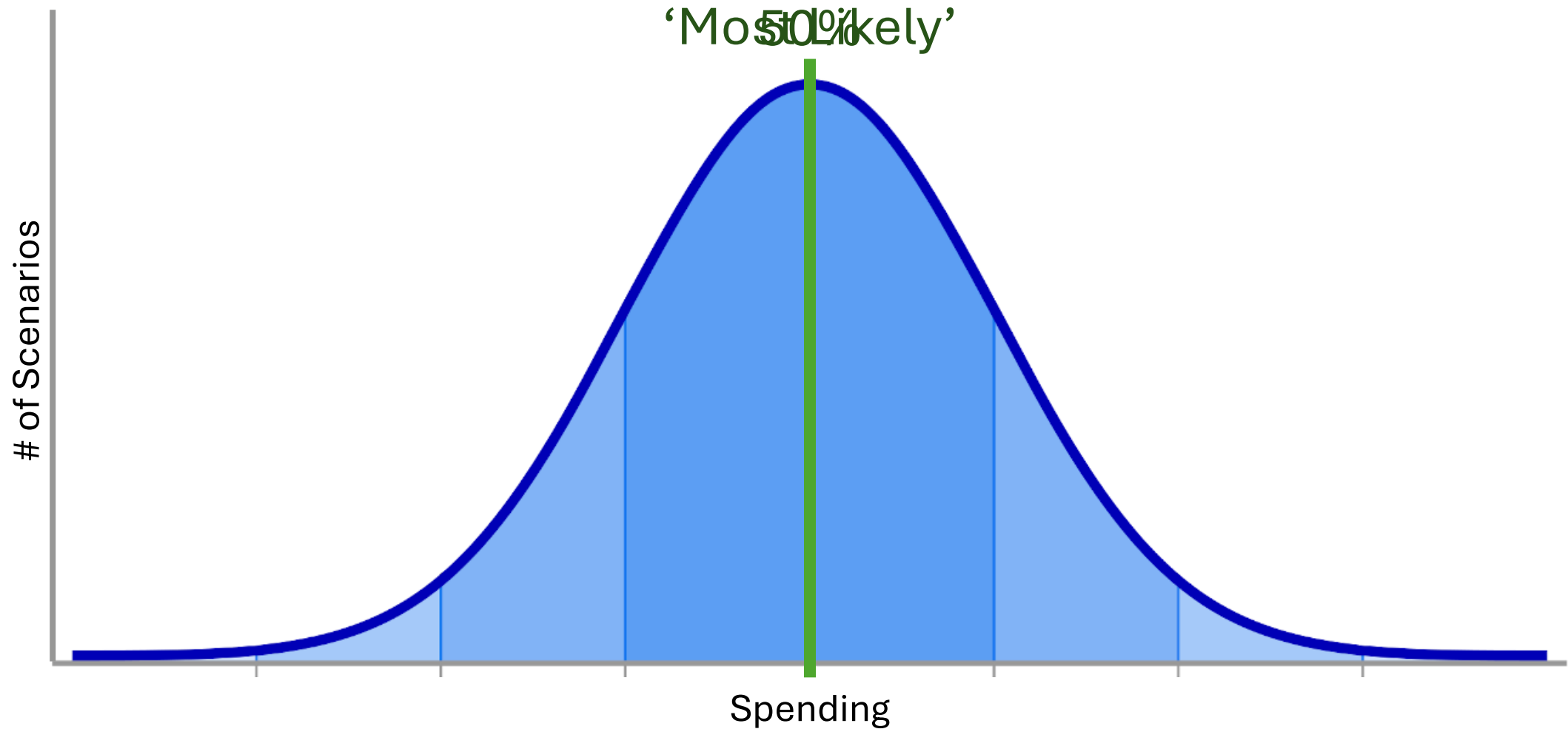
# HOW DOES FINANCIAL PLANNING ANALYSIS WORK?



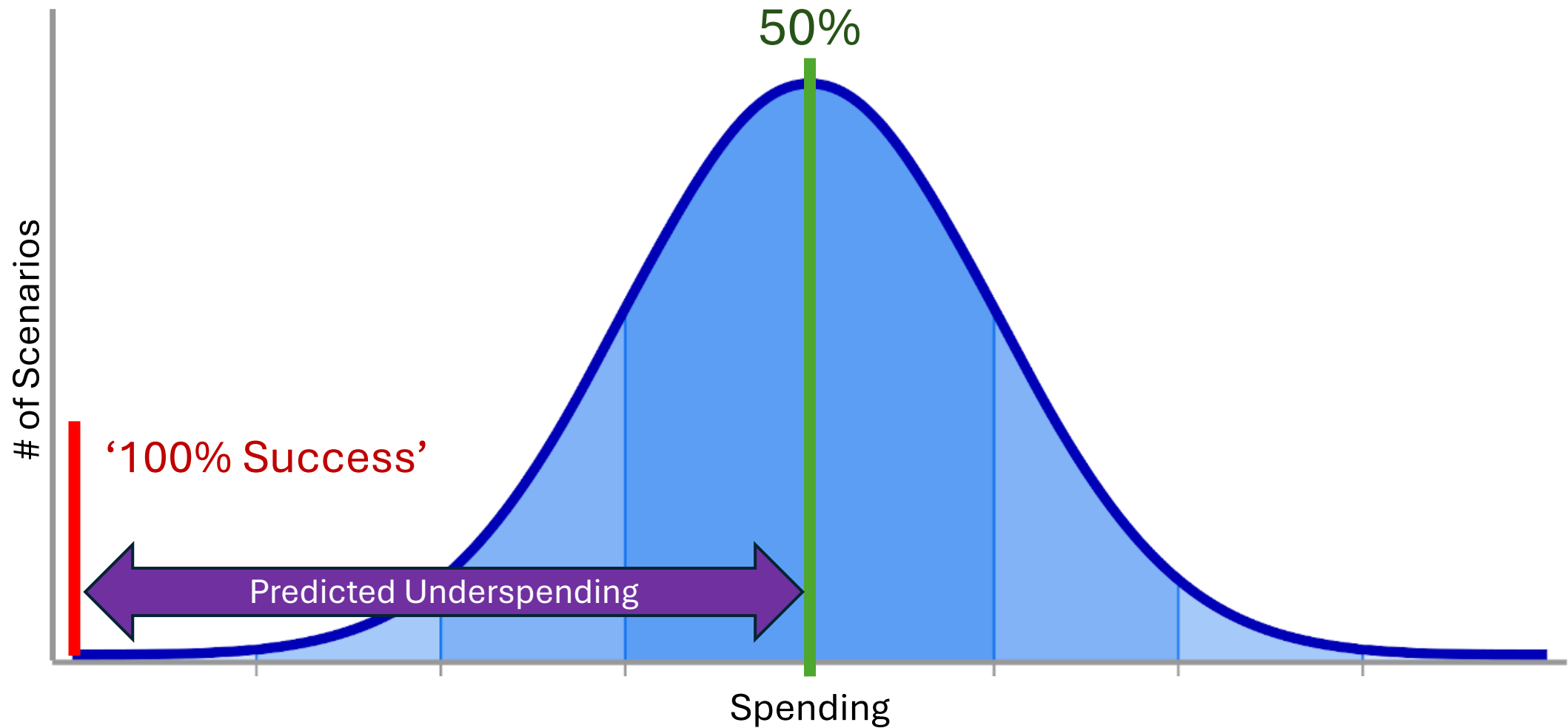
# WHAT'S THE 'PROBABILITY OF SUCCESS' OF THIS SPENDING?



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# WHERE IS '100% SUCCESS'?



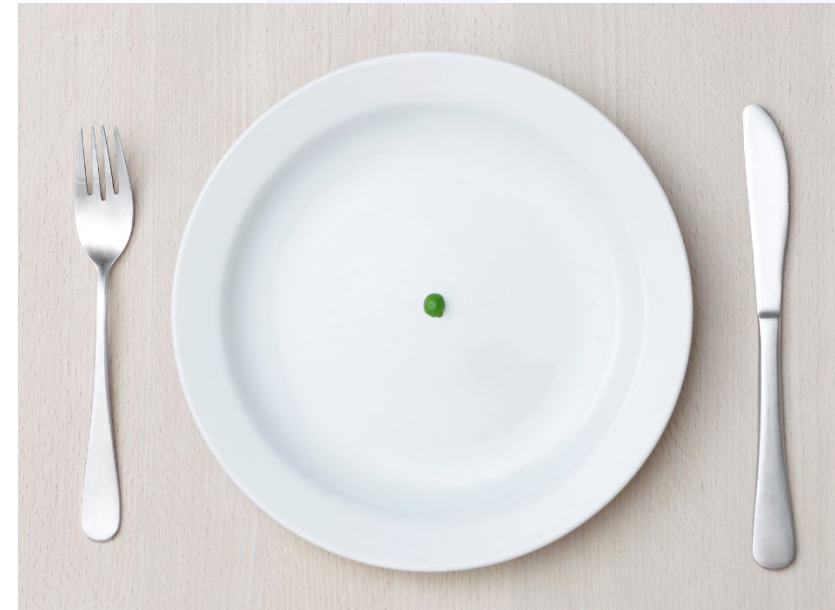
# PROBABILITY OF SUCCESS IS NOT WHAT CLIENTS THINK IT IS

What “Success” Means to You and Your Clients



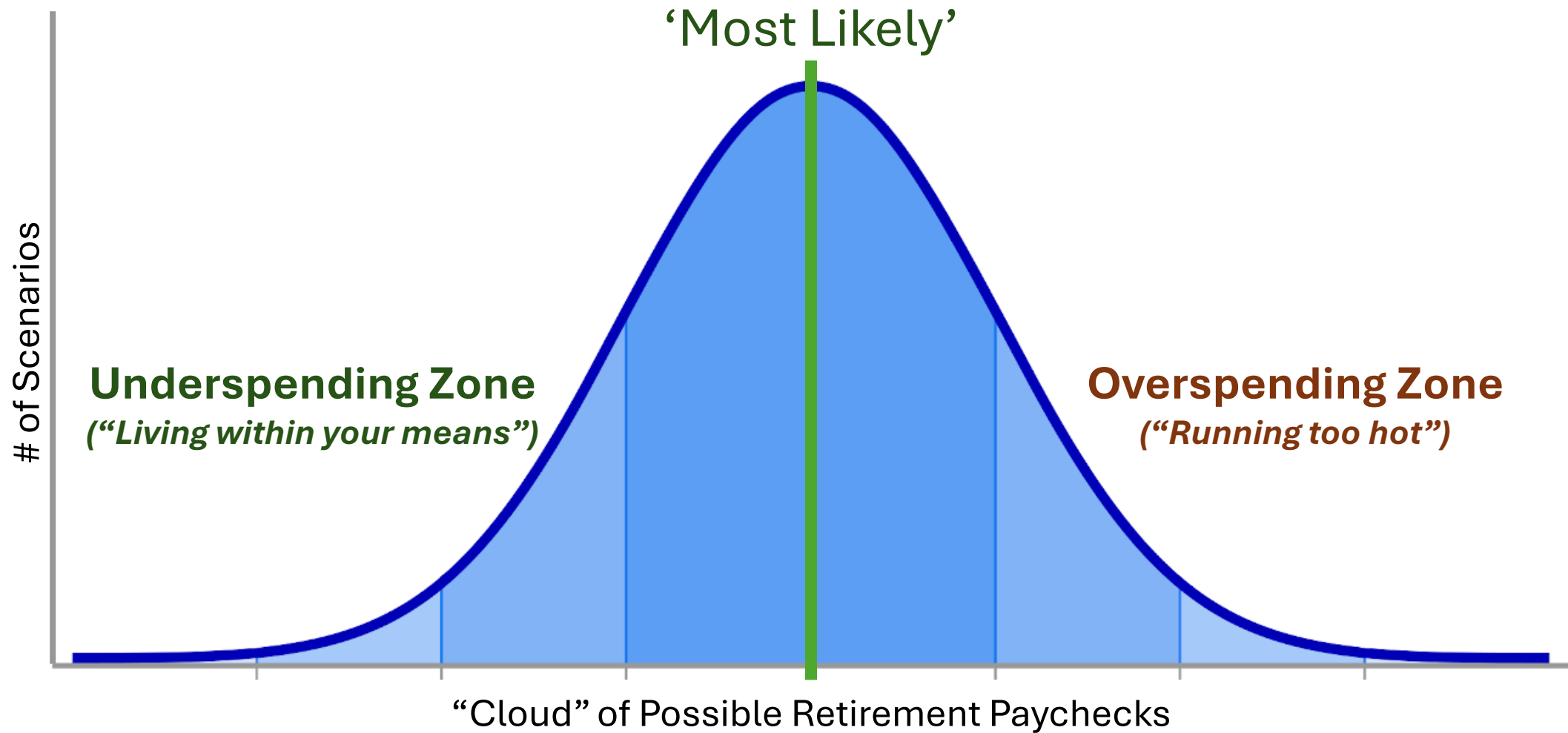
“Live a great life”

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”

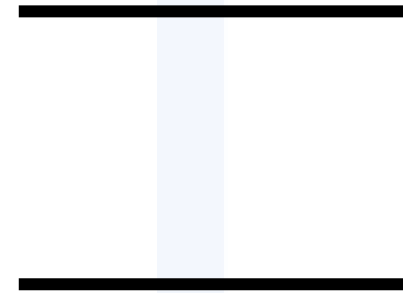
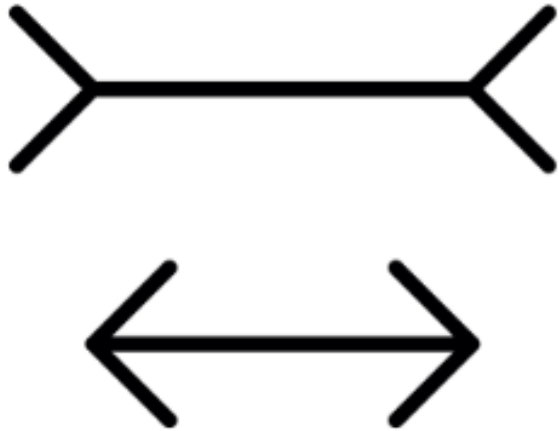
# HOW MUCH CAN I SPEND?



100% Probability of ~~Success~~

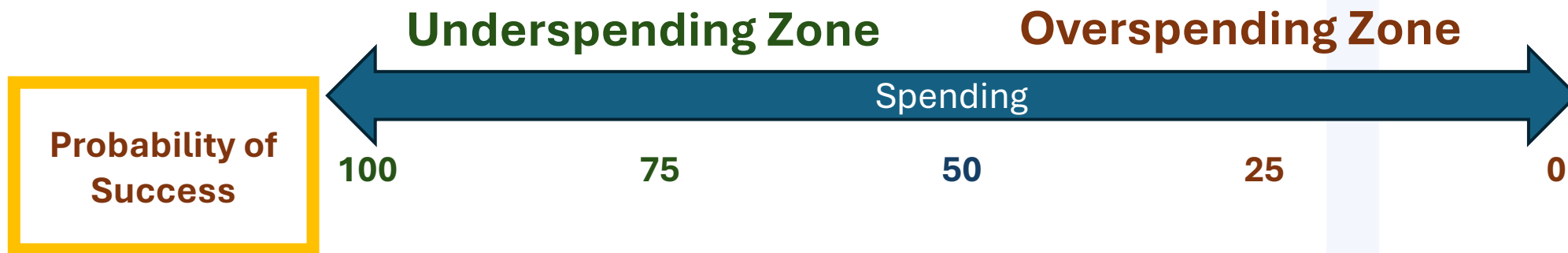
*Regret*

# | WHICH LINE IS SHORTER?

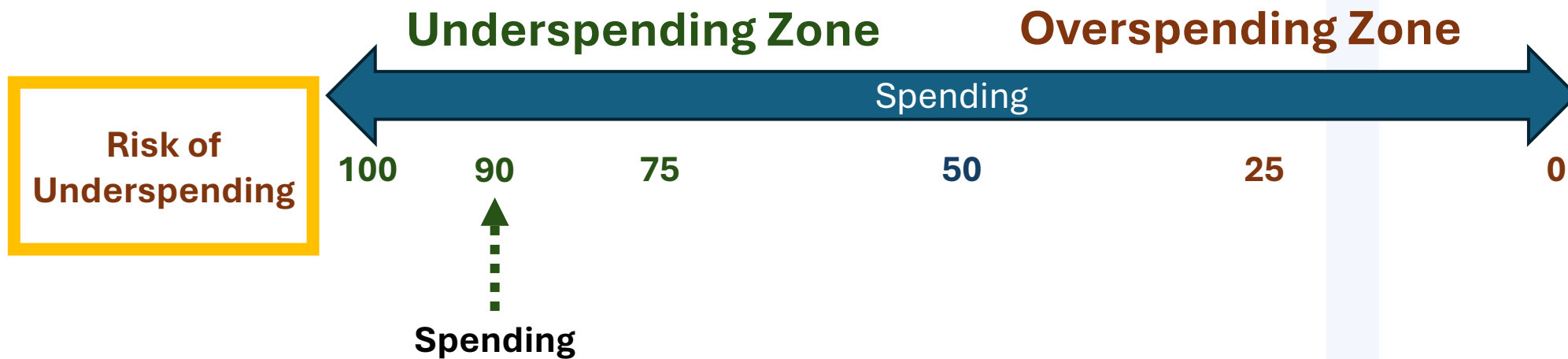


*Illusions don't disappear once you know about them.*

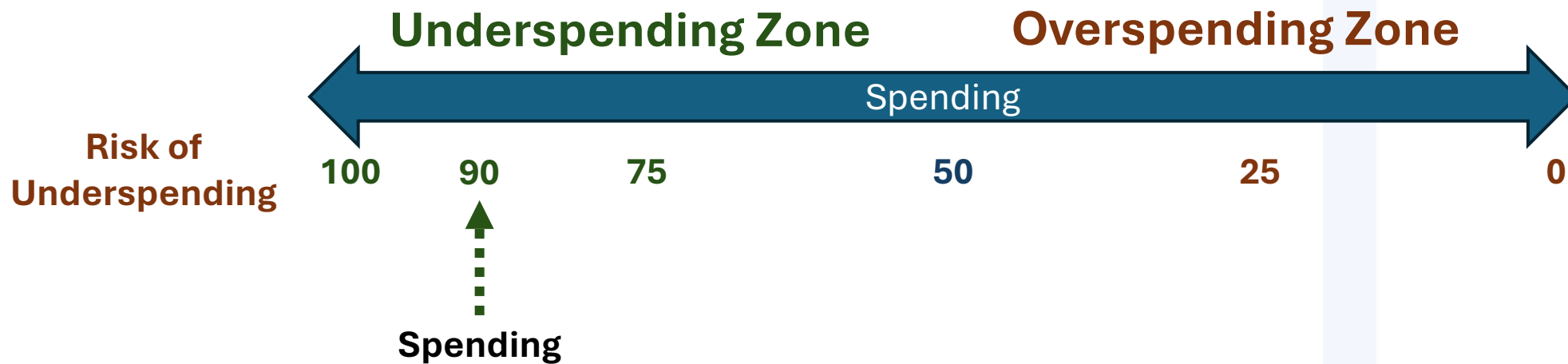
# | *PROBABILITY OF SUCCESS IS MISLEADING*



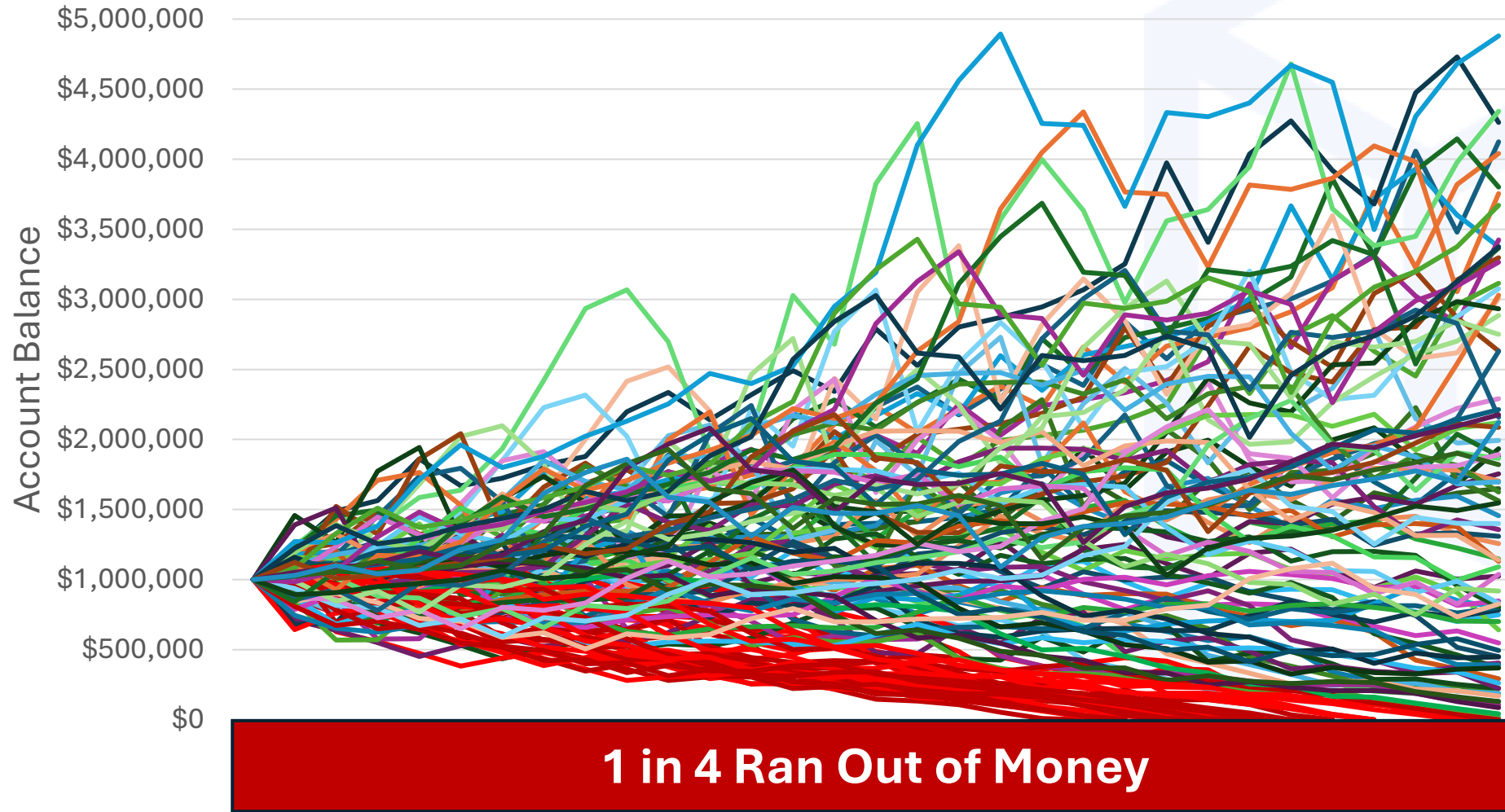
# | *PROBABILITY OF SUCCESS IS MISLEADING*



# | *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:

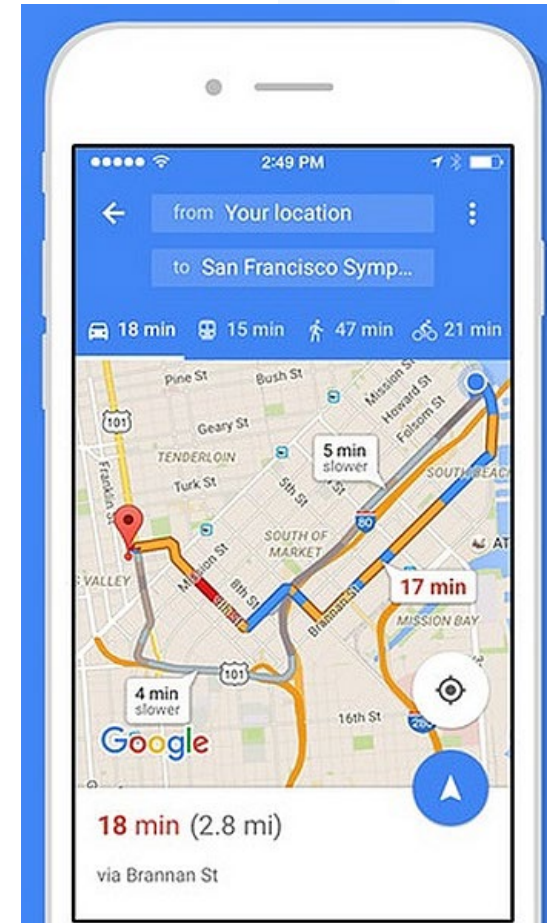
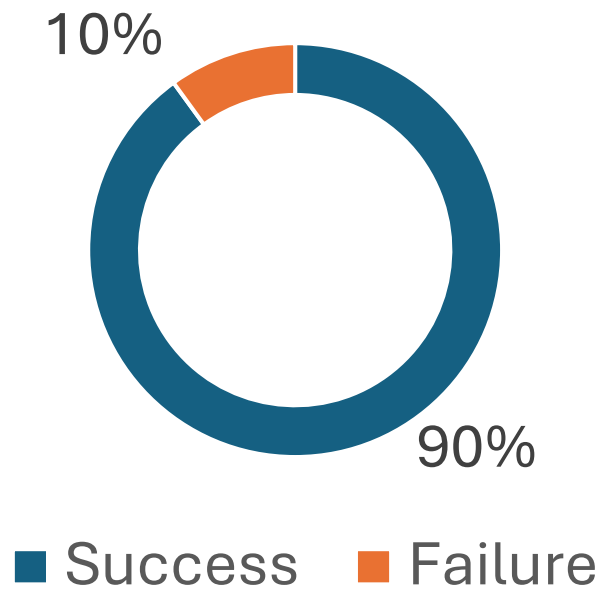
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*How much can I spend?*

**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”

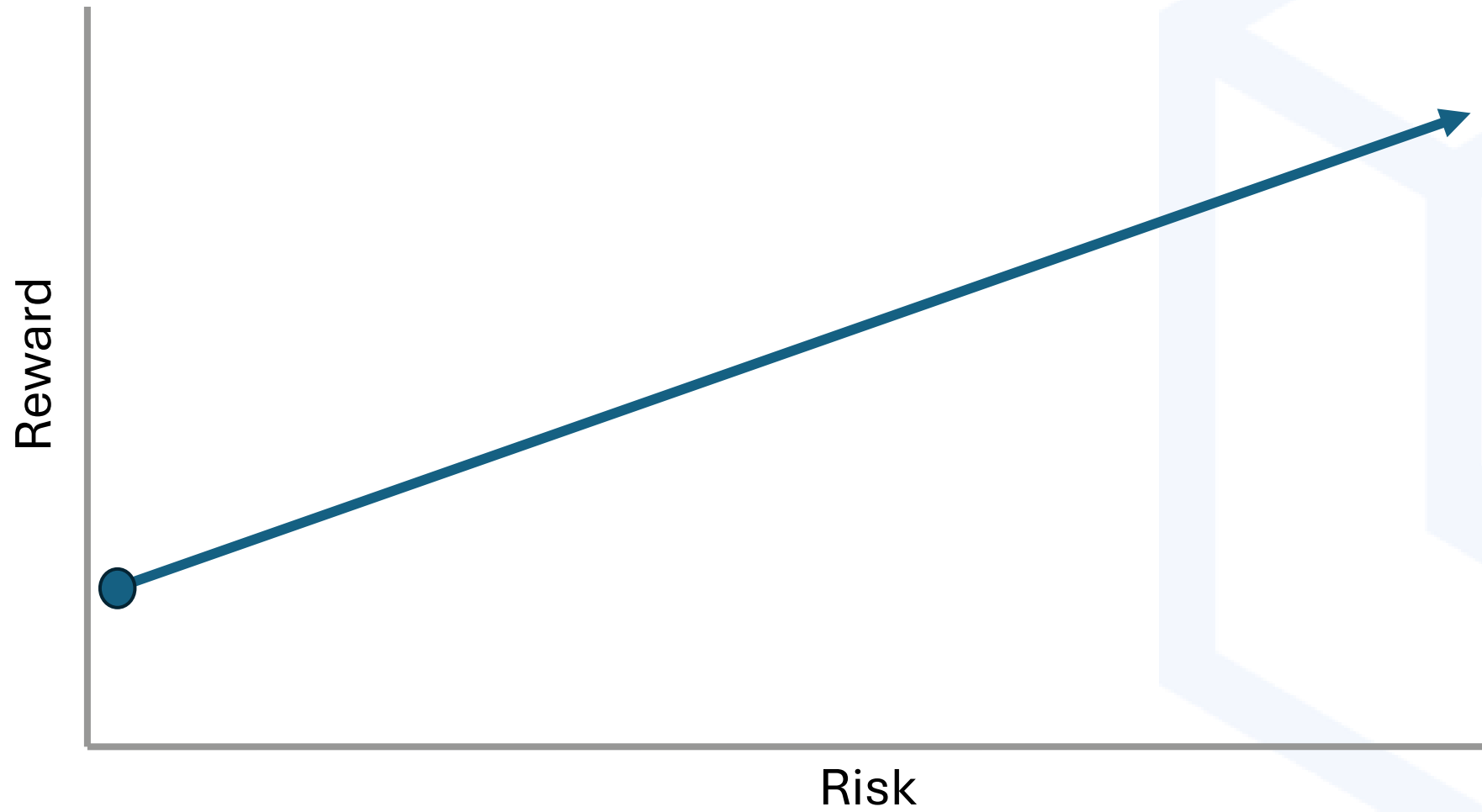
What Framework can  
Target the Real Goal?

## NOT Top Priority

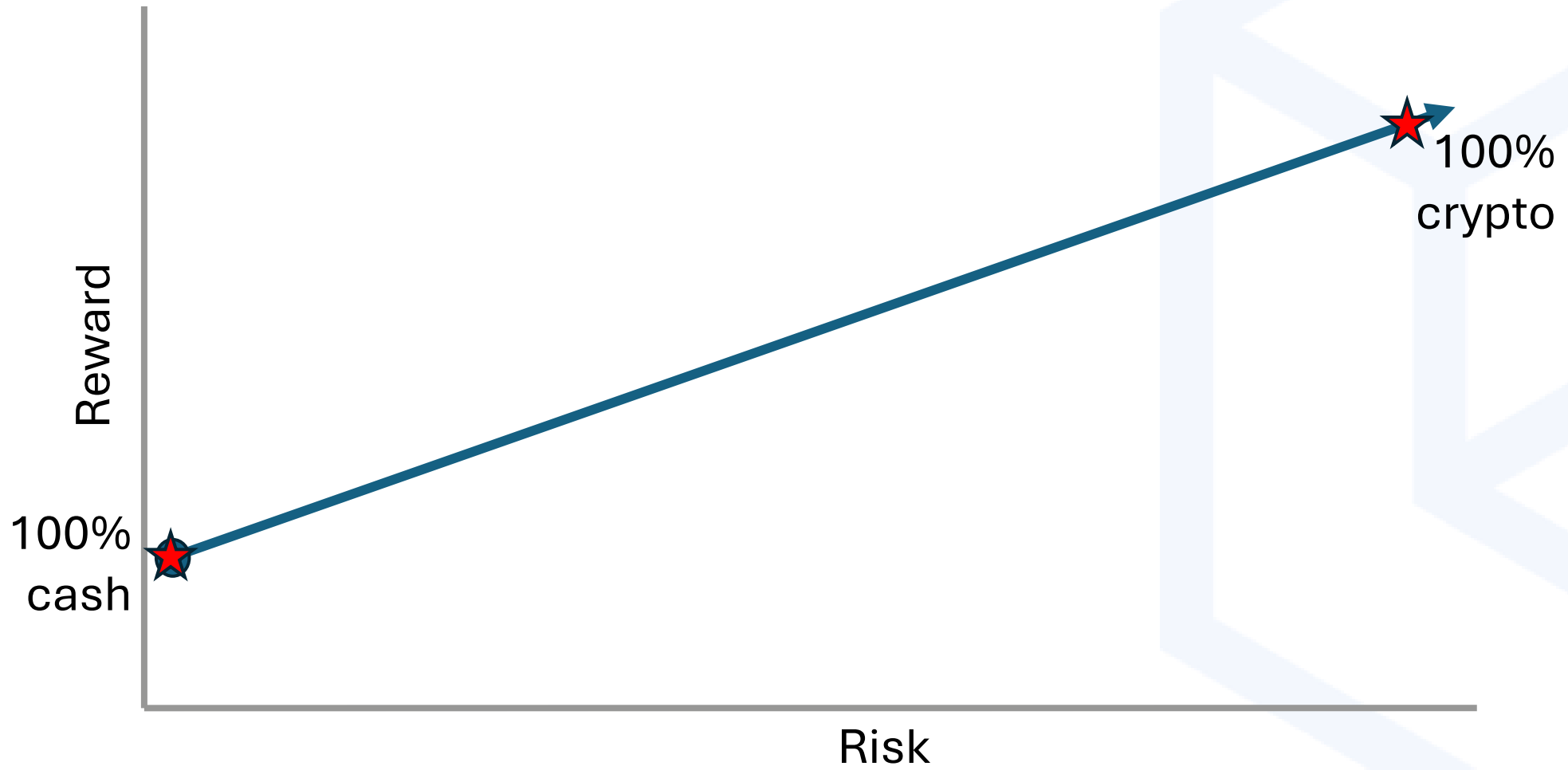
“Leave (lots of) money behind  
when I die”

The Goal of  
*Probability of  
Success*

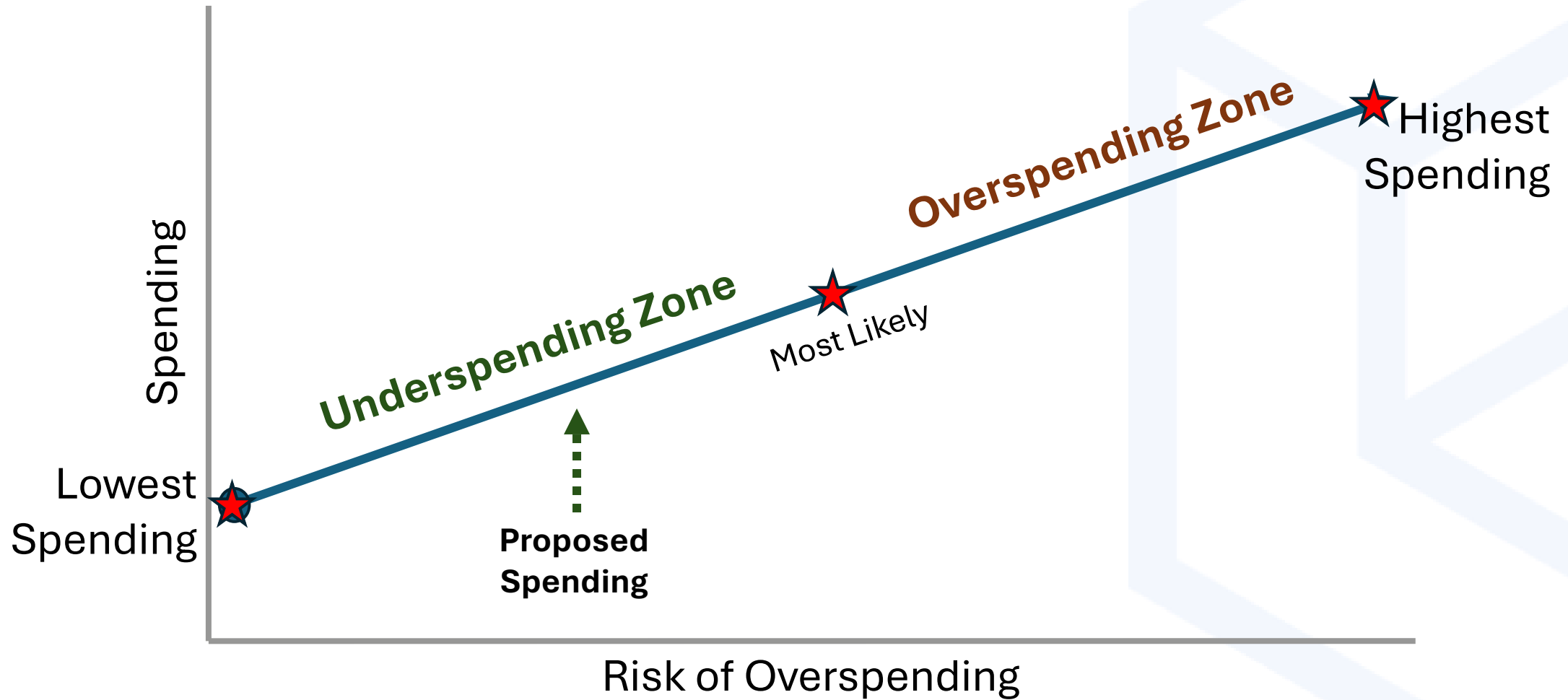
# | BALANCING *RISK AND REWARD*



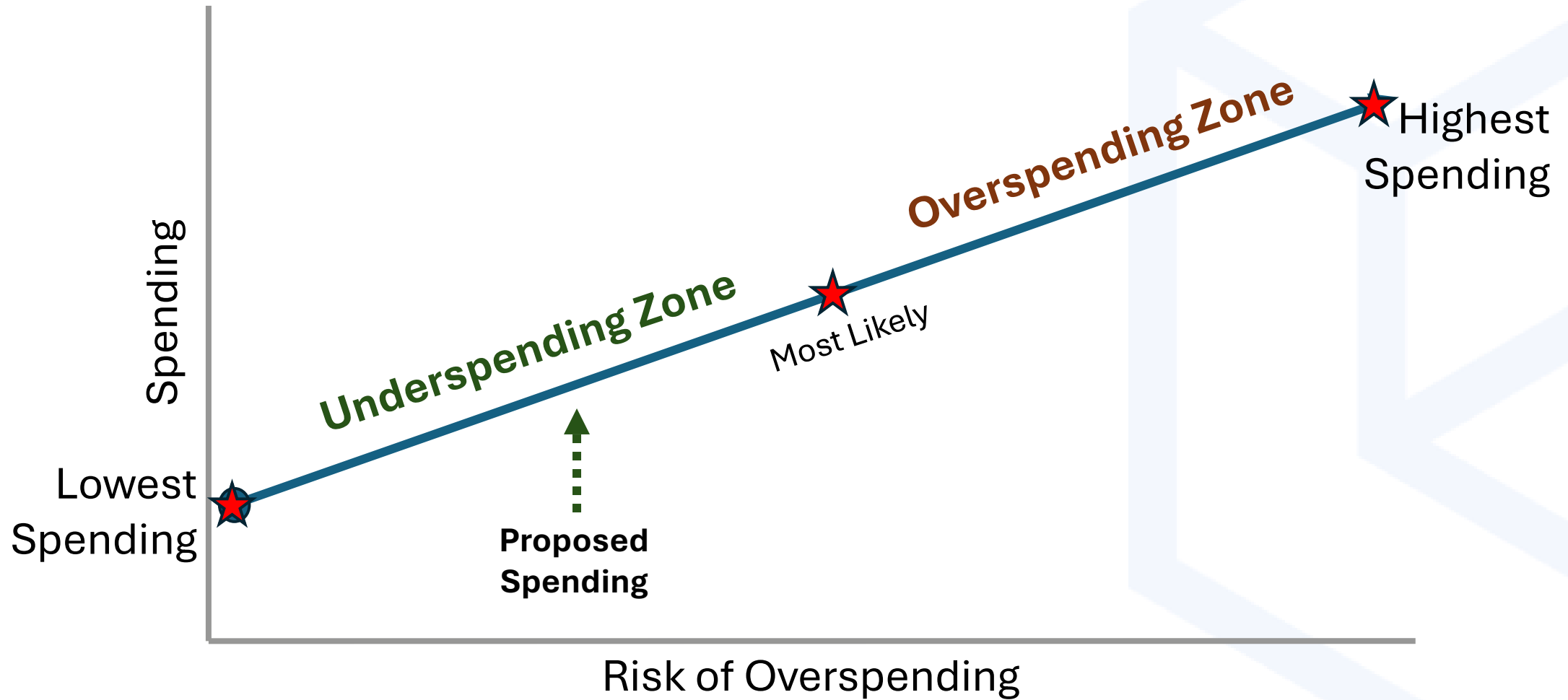
# BALANCING *RISK* AND *REWARD* IN INVESTING



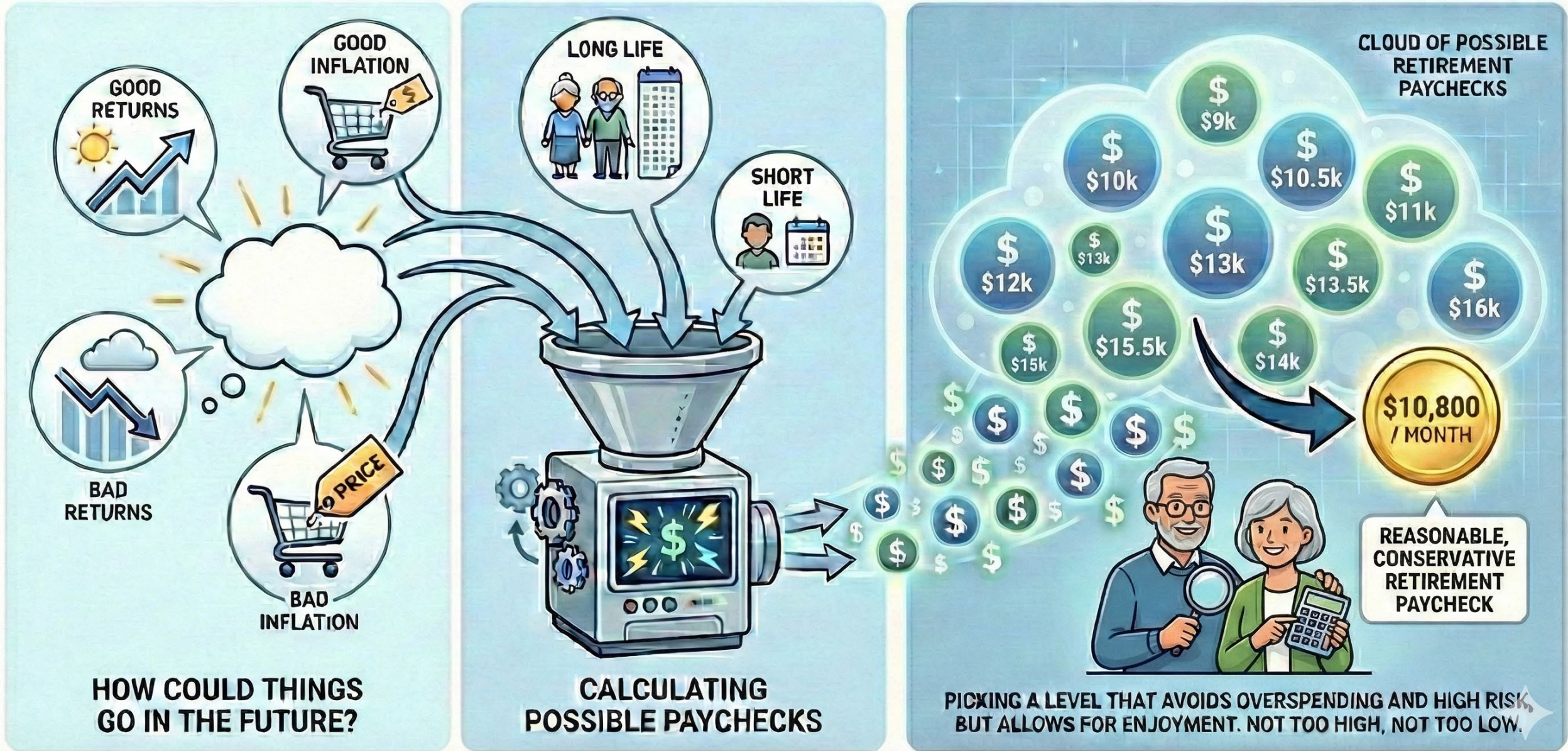
# BALANCING RISK AND REWARD IN RETIREMENT SPENDING



# BALANCING RISK AND REWARD IN RETIREMENT SPENDING



# How do we find your retirement paycheck?



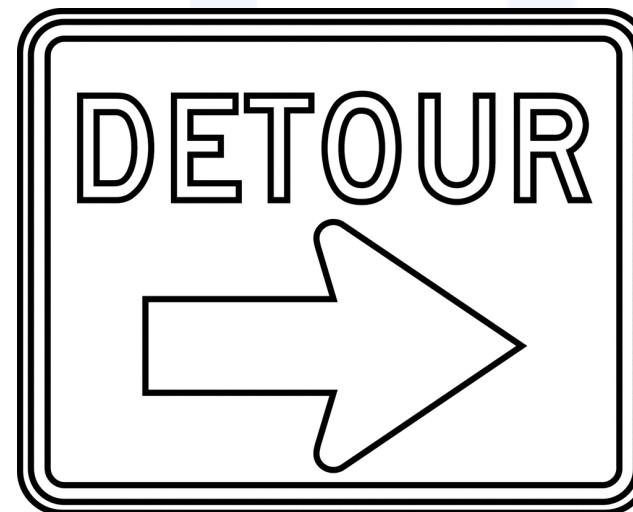
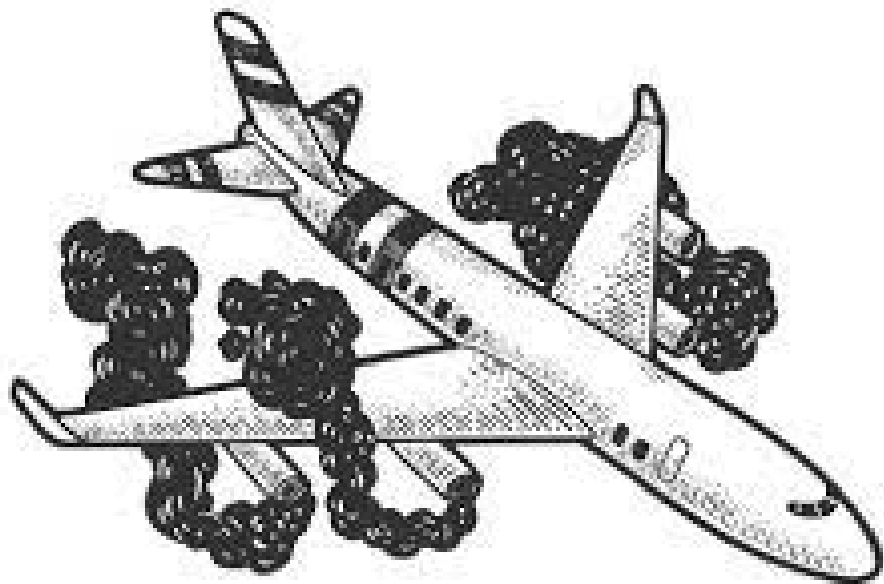


Scores vs Directions:

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*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***

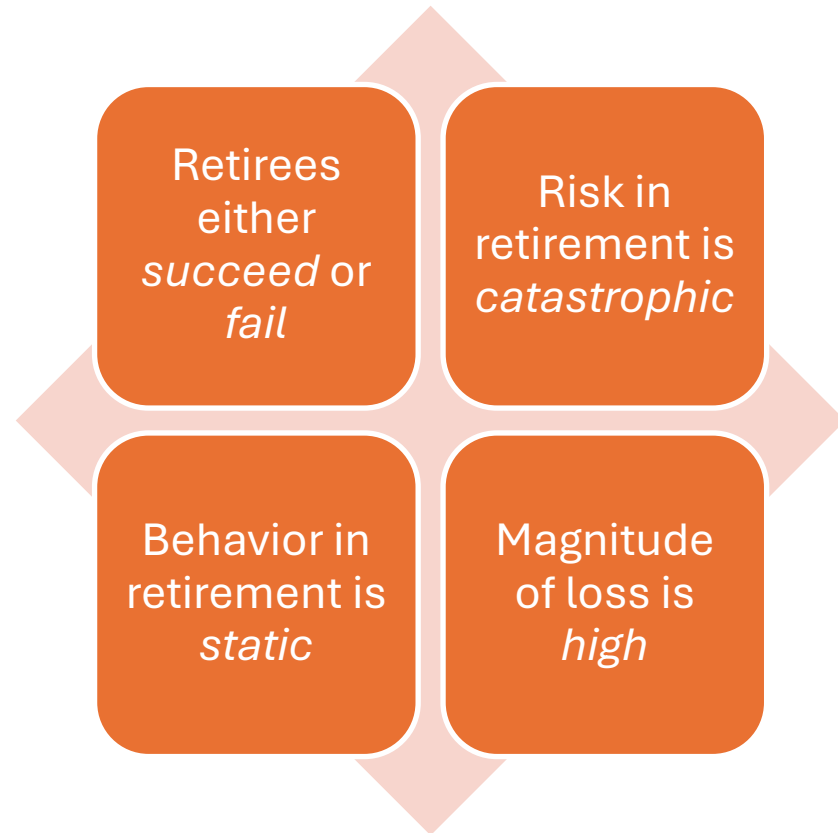
More "Outrage"	Less "Outrage"
<b>Catastrophic</b>	Chronic
Not Knowable	Knowable
<b>Process is Unresponsive</b>	Process is Responsive
<b>Dreaded</b>	Not Dreaded
Memorable	Not Memorable
Coerced	Voluntary
Exotic	Familiar
Controlled by Others	Controlled by Me
Unfair	Fair
I can't trust you	I can trust you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

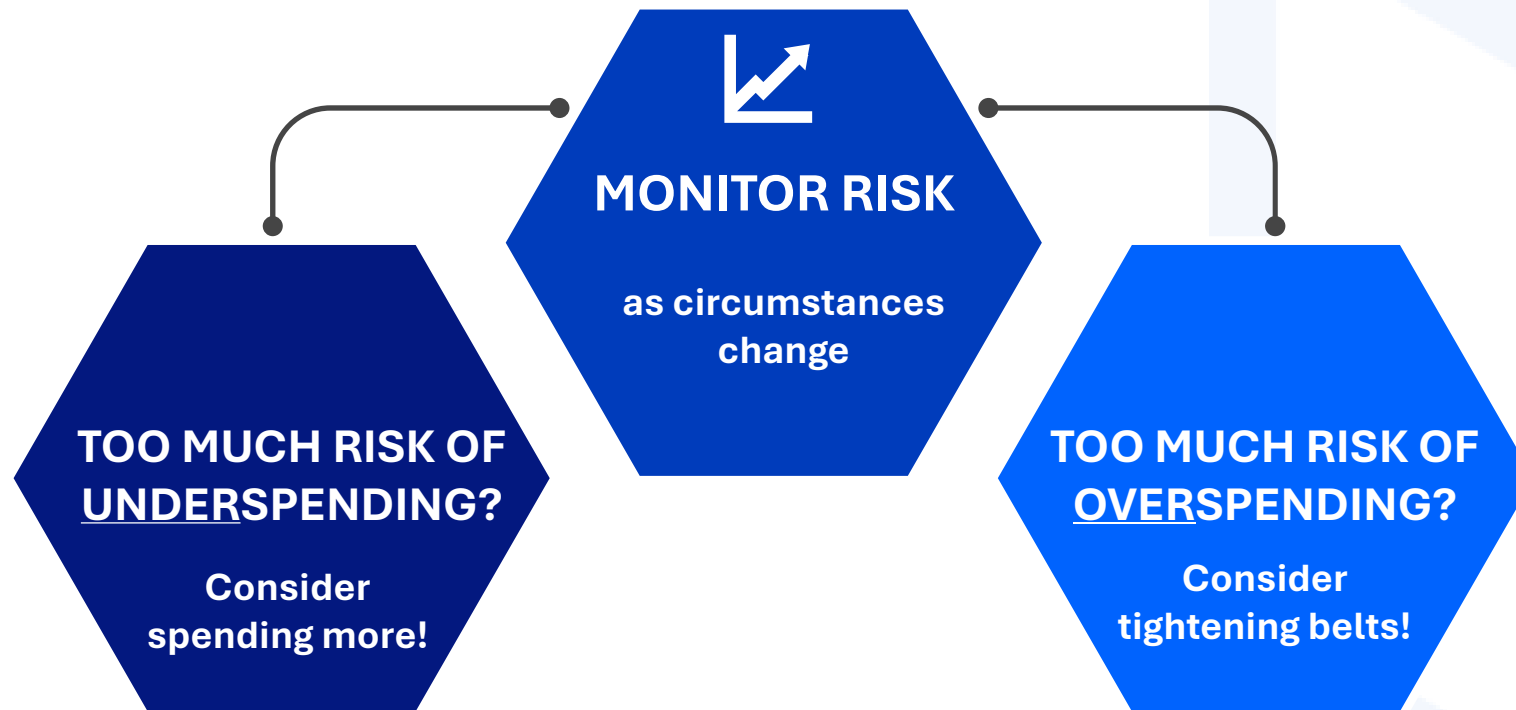
- Success/Failure



- 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:

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*Client Experiences*

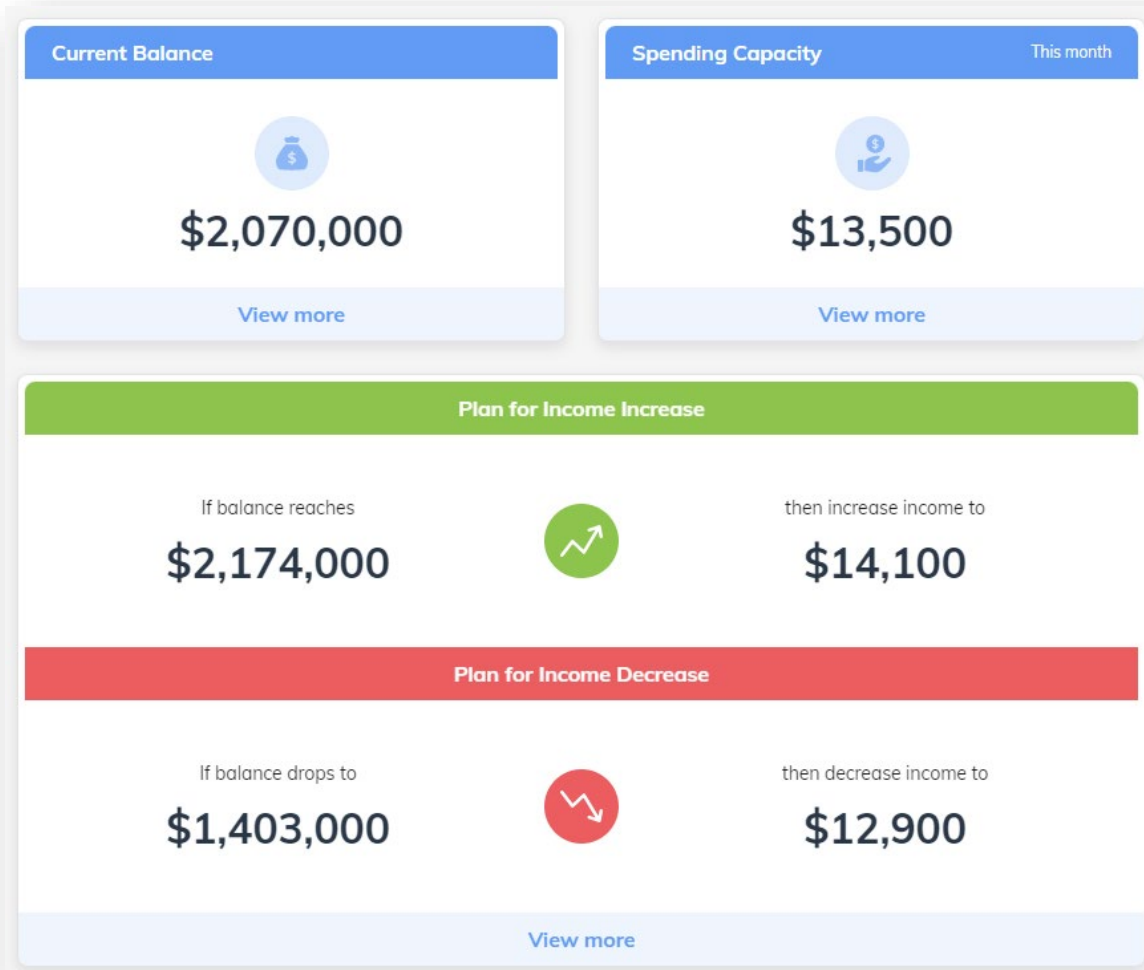
## | A RETIREMENT PLAY IN ONE SCENE

*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?

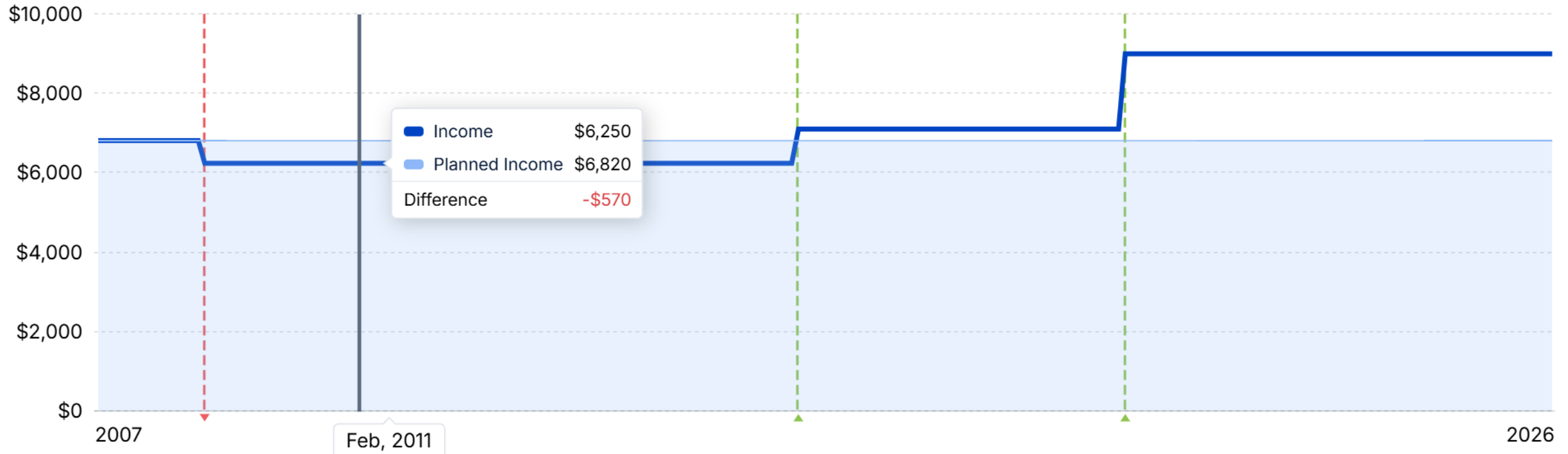
When would I make an adjustment?  
(What would trigger a change?)

How much would I adjust?

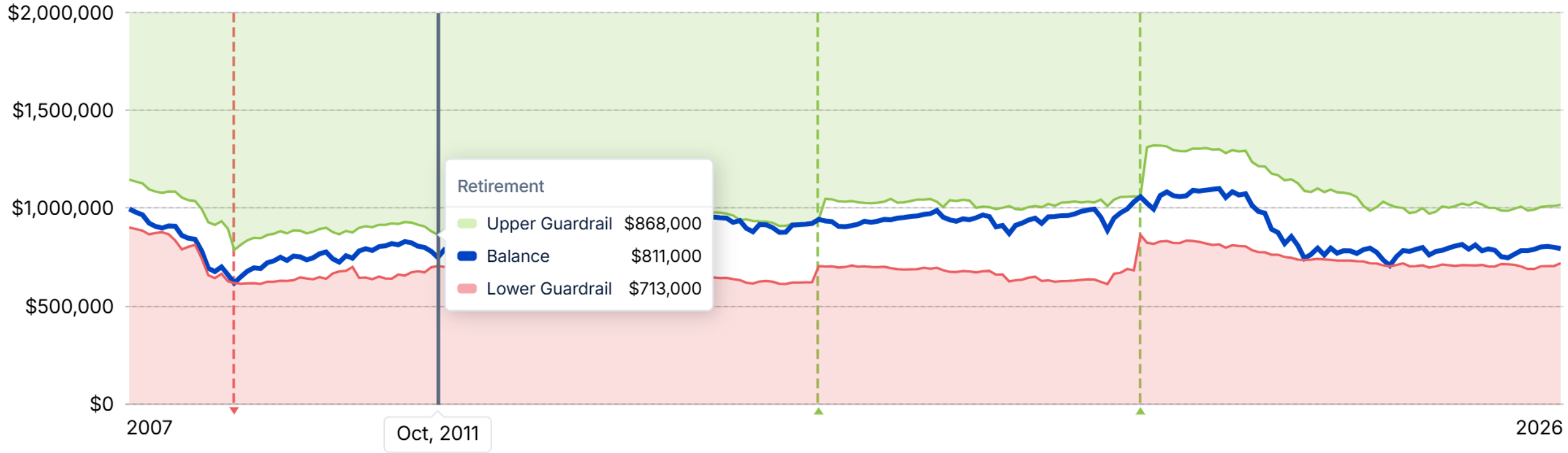
# SHIFT FROM FAILURE TO ADJUSTMENT

Income

Income Planned Income Hit Upper Guardrail Hit Lower Guardrail

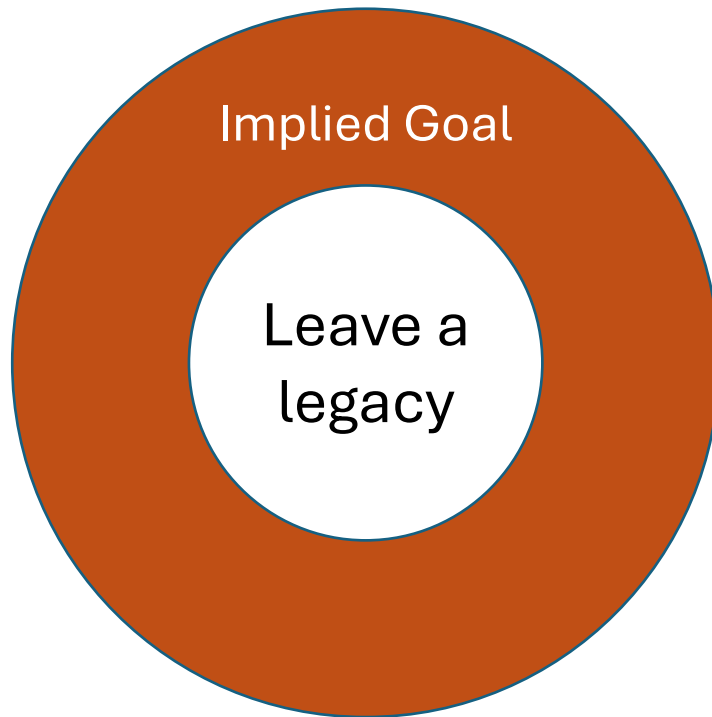


# SHIFT FROM FAILURE TO ADJUSTMENT



# | 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:

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*The Financial Planning Process*

# “STEP 7” MATTERS

What is your demonstrable, documented process for step 7?





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

# TAX OPTIMIZATION FOR PRE-RETIREEES & RETIREEES

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How to deliver value with tax-aware planning

Justin Fitzpatrick, PhD, CFA, CFP<sup>®</sup>

# Retirement Income Planning Process



Helping you navigate your way to and through retirement with ease.

# | THE THREE 'TAX TORPEDOS'

- Required minimum distributions (RMDs)
- The “widow’s penalty”
- Taxes paid by beneficiaries

# STRATEGIC VS TACTICAL TAX PLANNING

- Tactical: Near-term / “save on taxes now”
- Strategic: Look at overall shape of plan / consider how today’s actions affect things in the future

# EVALUATING TAX PLANS

☆ Roth Conversions to fill 24% Brkt

— vs —

Taxable, Tax-Deferred, Tax-Free

## Average Tax Rate

Saves  
**5.4%**

Roth Conversions to fill 24% Brkt  
8%

vs

Taxable, Tax-Deferred, Tax-Free  
13.4%

## Total Taxes

Saves  
**\$564,000**

Roth Conversions to fill 24% Brkt  
\$625,000

vs

Taxable, Tax-Deferred, Tax-Free  
\$1,189,000

## Total Net Income

Goes up  
**\$564,000**

Roth Conversions to fill 24% Brkt  
\$5,085,000

vs

Taxable, Tax-Deferred, Tax-Free  
\$4,521,000

## Net Legacy

Goes up  
**\$289,000**

Roth Conversions to fill 24% Brkt  
\$5,299,000

vs

Taxable, Tax-Deferred, Tax-Free  
\$5,010,000

The value of a tax plan is measured in higher net income and/or higher net legacy.

# Select a Tax Strategy

What if Compared to

Values shown in **today's dollars**.

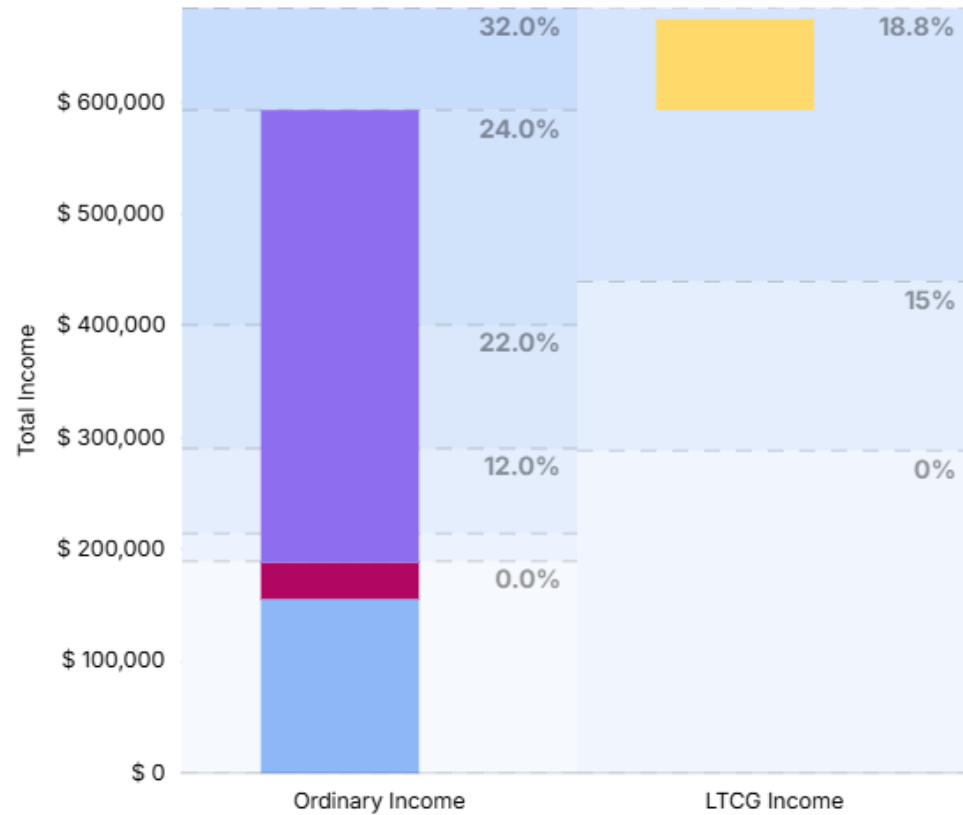
	What if	Compared to		
<input type="radio"/> Tax-Free, Tax-Deferred, Taxable	14.68%	\$1,201,000	\$4,509,000	\$5,766,000
<input type="radio"/> Tax-Free, Taxable, Tax-Deferred	13.38%	\$1,189,000	\$4,521,000	\$5,010,000
<input type="radio"/> Roth Conversions to fill 0% Brkt	13.34%	\$1,183,000	\$4,527,000	\$5,014,000
<input type="radio"/> Roth Conversions to fill 10% Brkt	13.14%	\$1,151,000	\$4,559,000	\$5,034,000
<input type="radio"/> Roth Conversions to fill 12% Brkt	11.46%	\$901,000	\$4,809,000	\$5,204,000
<input type="radio"/> Roth Conversions below IRMAA Brkt 1	10.68%	\$821,000	\$4,889,000	\$5,536,000
<input type="radio"/> Roth Conversions to fill 22% Brkt <span>Used in Plan</span>	9.07%	\$674,000	\$5,036,000	\$5,447,000
<input type="radio"/> Roth Conversions below IRMAA Brkt 2	9.07%	\$682,000	\$5,027,000	\$5,450,000
<input type="radio"/> Roth Conversions below IRMAA Brkt 3	8.58%	\$657,000	\$5,052,000	\$5,372,000
<input type="radio"/> Roth Conversions below IRMAA Brkt 4	8.3%	\$641,000	\$5,069,000	\$5,335,000
<input checked="" type="radio"/> Roth Conversions to fill 24% Brkt <span>Viewing Now</span> <span>☆</span>	7.99%	\$625,000	\$5,085,000	\$5,299,000
<input type="radio"/> Roth Conversions to fill 32% Brkt	8.11%	\$628,000	\$5,082,000	\$5,313,000
<input type="radio"/> Roth Conversions below IRMAA Brkt 5	8.43%	\$649,000	\$5,060,000	\$5,330,000
<input type="radio"/> Roth Conversions to fill 35% Brkt	8.45%	\$649,000	\$5,061,000	\$5,348,000
<input type="radio"/> Maximum Roth Conversion	9.16%	\$698,000	\$5,011,000	\$5,494,000

# | PLANNING OPPORTUNITIES

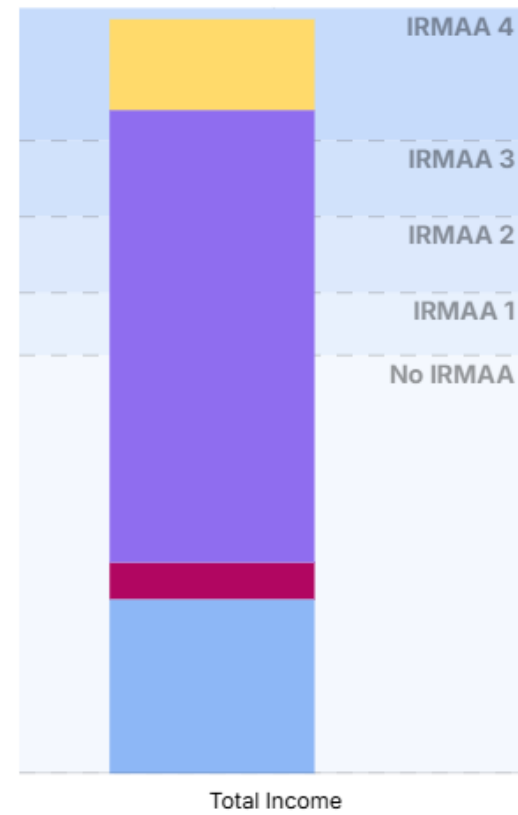
- Roth conversions
- Qualified charitable distributions (QCDs)
- IRMAA Management

# ROTH CONVERSIONS

Tax Brackets



IRMAA Brackets



<span style="color: yellow;">■</span> LTCG Income ?	<b>\$81,200</b>
<span style="color: purple;">■</span> Roth Conversions ?	<b>\$405,000</b>
<span style="color: lightpurple;">■</span> Other Taxable Qualified Distributions ?	<b>\$0</b>
<span style="color: pink;">■</span> RMDs ?	<b>\$0</b>
<span style="color: maroon;">■</span> Other Taxable Income ?	<b>\$32,800</b>
<span style="color: darkgreen;">■</span> Taxable Social Security Income ?	<b>\$0</b>
<span style="color: lightgreen;">■</span> Taxable Earned Income ?	<b>\$0</b>
<span style="color: lightblue;">■</span> Other Non-Taxable Income ?	<b>\$156,000</b>
<span style="color: blue;">■</span> Non-Taxable Earned Income ?	<b>\$0</b>
<span style="color: darkblue;">■</span> Non-Taxable Qualified Distributions ?	<b>\$0</b>
<span style="color: black;">■</span> Non-Taxable Social Security Income ?	<b>\$0</b>

Cost of Conversion

**\$17,148**

Effective Rate

**24.2%**

Tax cost per dollar converted

Bracket Rate

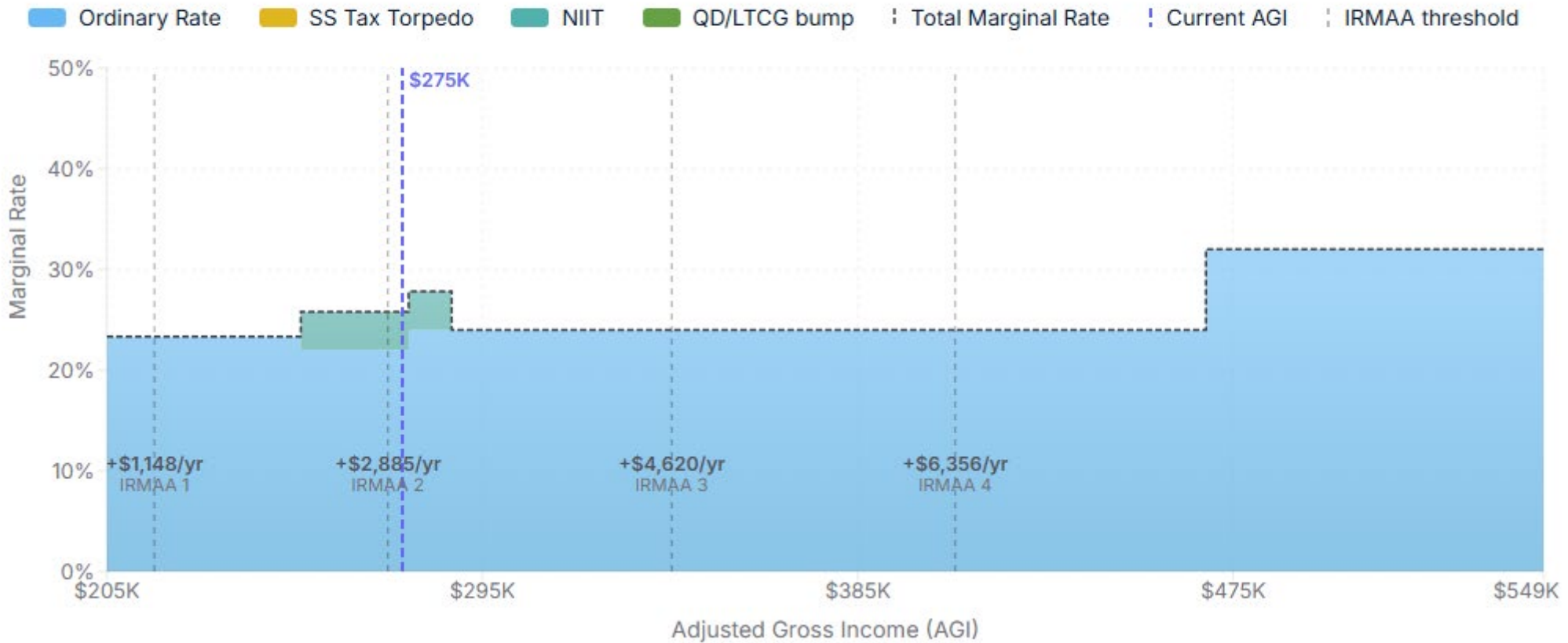
**22%**

Federal bracket at top of conversion

Bracket Room

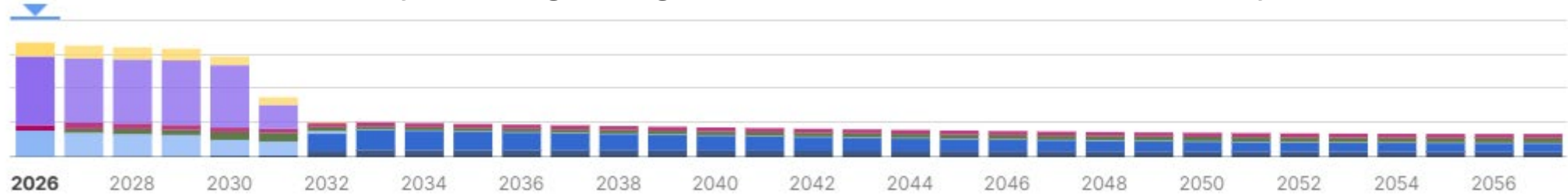
**\$0**

Remaining in 22% bracket



# LONG-TERM VIEW EXAMPLE

Social Security claiming during Roth conversions increases taxability of benefits



Year	Non-Taxable Social Security Income	Non-Taxable Qualified Distributions	Non-Taxable Earned Income	Other Non-Taxable Income	Taxable Earned Income	Taxable Social Security Income	Other Taxable Income	RMDs	Other Taxable Qualified Distributions	Roth Conversions	LTCG Income
2026	\$0	\$0	\$0	\$156,000	\$0	\$0	\$32,800	\$0	\$0	\$405,000	\$81,200
2027	\$4,050	\$0	\$0	\$140,000	\$0	\$23,000	\$35,800	\$0	\$0	\$379,000	\$75,700
2028	\$5,400	\$0	\$0	\$130,000	\$0	\$30,600	\$32,400	\$0	\$0	\$376,000	\$71,300
2029	\$5,400	\$0	\$0	\$125,000	\$0	\$30,600	\$29,000	\$0	\$0	\$379,000	\$68,500
2030	\$8,100	\$0	\$0	\$93,700	\$0	\$45,900	\$26,300	\$0	\$0	\$367,000	\$51,500
2031	\$9,000	\$0	\$0	\$83,400	\$0	\$51,000	\$23,800	\$0	\$0	\$140,000	\$45,600
2032	\$36,000	\$102,000	\$0	\$16,100	\$0	\$24,000	\$23,400	\$0	\$0	\$0	\$7,530
2033	\$41,800	\$118,000	\$0	\$3,000	\$0	\$18,200	\$23,400	\$0	\$0	\$0	\$0
...	...	...	...	...	...	...	...	...	...	...	...

# LONG-TERM VIEW EXAMPLE

Delay of Social Security claiming decreases taxability of benefits

Year	Non-Taxable Social Security Income	Non-Taxable Qualified Distributions	Non-Taxable Earned Income	Other Non-Taxable Income	Taxable Earned Income	Taxable Social Security Income	Other Taxable Income	RMDs	Other Taxable Qualified Distributions	Roth Conversions	LTCG Income
2026	\$0	\$0	\$0	\$157,000	\$0	\$0	\$32,800	\$0	\$0	\$405,000	\$81,600
2027	\$0	\$0	\$0	\$158,000	\$0	\$0	\$35,200	\$0	\$0	\$402,000	\$84,900
2028	\$0	\$0	\$0	\$155,000	\$0	\$0	\$31,000	\$0	\$0	\$408,000	\$83,300
2029	\$0	\$0	\$0	\$149,000	\$0	\$0	\$26,700	\$0	\$0	\$412,000	\$80,300
2030	\$4,970	\$0	\$0	\$108,000	\$0	\$28,100	\$23,400	\$0	\$0	\$388,000	\$57,800
2031	\$22,400	\$128,000	\$0	\$3,180	\$0	\$22,200	\$23,400	\$0	\$13,700	\$0	\$103
2032	\$48,100	\$113,000	\$0	\$3,000	\$0	\$21,800	\$23,400	\$0	\$0	\$0	\$0

# | IRMAA MANAGEMENT

- What is 'IRMAA'?
  - Income-related monthly adjustment amount
  - Added monthly premiums on Medicare parts B and D
- How does it work?
  - 'Cliff' brackets based on MAGI
  - 2-year look-back

# IRMAA MANAGEMENT

## IRMAA Surcharge Breakdown

Tiers	IRMAA 1	IRMAA 2	IRMAA 3	IRMAA 4	IRMAA 5
MAGI Above	\$218K	\$274K	\$342K	\$410K	\$750K
Part B/yr	\$974	\$2,435	\$3,895	\$5,356	\$5,844
Part D/yr	\$174	\$450	\$725	\$1,000	\$1,092
Per person	\$1,148	\$2,885	\$4,620	\$6,356	\$6,936

(Values are for 'Married Filing Jointly' filing status)

# IRMAA APPEALS

✔ You Likely Qualify for an IRMAA Appeal

Retirement or job loss qualifies because it significantly reduces your earned income going forward.

## IRMAA Premium Comparison

### Current (2-year look-back)

\$350,000 MAGI (2024)

Tier 3

Part B **\$510.10/mo**

Part D surcharge **\$60.40/mo**

Total **\$570.50/mo**

### If appeal approved

Projected

\$100,000 MAGI (2026)

**Standard (no surcharge)**

Part B **\$185.50/mo**

Part D surcharge **\$0.00/mo**

Total **\$185.50/mo**

**\$9,240/year**

Estimated annual savings (2 enrollees)

**\$385.00/mo**

Monthly savings per person

# IRMAA APPEALS

## Client Instructions

### What to file

File **Form SSA-44** (Medicare Income-Related Monthly Adjustment Amount -- Life Changing Event).

### How to file

- 1 Online at **ssa.gov** (search "SSA-44" or "Life Changing Event")
- 2 By phone: **1-800-772-1213** (TTY 1-800-325-0778)
- 3 In person at your local Social Security office

### Documentation to bring

For **Work stoppage (retirement or job loss)** (May 1, 2026):

- Letter from employer confirming retirement or termination
- Signed statement describing the work stoppage
- Tax return showing income reduction
- Most recent tax return or other proof of current-year income

### If approved

Your Part B premium would change from **\$510.10/month** to **\$185.50/month**.

Estimated annual savings: **\$9,240** (for 2 enrollees).

### Life-Changing Event

Work stoppage (retirement or job loss) ^

Marriage

Divorce / Annulment

Death of spouse

Work stoppage (retirement or job loss)

Work reduction (reduced hours/income)

Loss of income-producing property (involuntary)

Loss of pension income

Employer settlement payment



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