Mortality and Longevity

Aging and Retirement

An Actuarial Approach to Retirement Strategy Metrics

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Executive Summary

Because of the complexity involved in the creation of customized individual retirement income plans, retirees tend to rely on simpler approaches that focus primarily on investment portfolio drawdowns. However, these approaches often suffer from a variety of weaknesses. The primary one being a lack of integration with other potential income sources (and related decisions). These include the age to commence Social Security benefits, whether to purchase a guaranteed income annuity with a portion of the retirement savings (immediate or deferred), the asset allocation risk level, whether and when to use home equity, the order of drawdowns based upon applicable income taxes, as well as others. In addition, some basic drawdown approaches are not well designed to accommodate changing spending patterns as one ages, nor the monitoring of liquidity during retirement, or legacy goals at death. Actuarial methods have the potential to be used to assist retirees in analyzing, testing, and comparing alternative comprehensive retirement income strategies incorporating additional sources of potential income and related decisions. In addition, a properly designed application, based on an actuarial method, can also serve an educational purpose even if not used in the final decision process. This paper proposes one such actuarial method for consideration.

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