

*Fast Facts*

Optimizing Retirement Income by Integrating Retirement Plans, IRAs, and Home Equity

SUMMARY

How can middle-income Americans optimize retirement income if most of their sources of income come from outside of employer-sponsored retirement income plans?

This detailed report explores that question by studying income outcomes for three hypothetical 65-year-old retirees whose assets are assumed to be held in IRAs, savings accounts and home equity. The three retirees' assumed savings levels were \$250,000, \$400,000 and \$1 million, respectively. The authors describe how they used forecasting and other tools to develop retirement income solution sets. The research explores the impact of using systematic withdrawal plans, purchasing annuities, drawing down savings to delay the start of Social Security income, and home equity in the retirees' income plans.

Bottom line: Optimization potential exists but retirees will need to consider income and wealth tradeoffs.

HIGHLIGHTS

- For virtually all the target group of this report, Social Security will generate 50% to 85% of total retirement income, depending on the claiming strategy they use.
- Some retirement income strategies (such as purchasing certain annuity products and using Social Security optimization approaches) will increase the income these retirees can expect to receive in retirement but decrease the savings they can access throughout retirement.
- For the solutions analyzed, those that optimize Social Security benefits, use low-cost investment or annuity products, and have a significant percentage of remaining savings invested in equities, were most efficient for addressing longevity, inflation, and investment risks.
- When significantly more than half of total retirement income comes from guaranteed sources, fluctuations in income generated by systematic withdrawal plans invested in stocks do not result in significant fluctuations in total retirement income.
- The report analyzed viable methods for deploying home equity to enhance retirees' financial security, which can be important for retirees with modest retirement savings.
- The findings confirm the authors' prior research in favor of building a diversified portfolio of retirement income. This entails building a floor of guaranteed, lifetime income from optimized Social Security benefits and annuities (and pensions when available), and then investing the remaining savings, which become accessible for income via a thoughtful systematic withdrawal plan.

LINK TO FULL REPORT

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<https://www.soa.org/research-reports/2017/2017-optimize-retire-income-plans-iras-equity/>

METHODOLOGY

- The researchers prepared stochastic forecasts of annual total retirement income expected from Social Security and savings for three hypothetical sets of 65-year-old retirees; forecasted savings that can be accessed in retirement; and analyzed strategies for deploying those savings.
- They developed two retirement income solution sets—“high-performing” and “low-performing”—for a stochastic range of investment returns and inflation using real arithmetic mean annual rates.
- They used an efficient frontier to forecast potential tradeoffs between expected income and expected accessible wealth (liquidity).
- They prepared graphs showing progression of income and accessible wealth for 30 years of retirement for selected solutions.

REPORT SPECS

- Published: November 2017
- Pages: 146
- Access: Downloadable pdf
- Research Sponsor: SOA Aging & Retirement Strategic Research Program
- Authors: Wade Pfau, Ph.D., CFA; Joe Tomlinson, FSA, CFP®; and Steve Vernon, FSA
- Content: Report summary, practical applications, technical discussion, references, 6 figures, 2 tables, and 6 appendices
- Body of research: For nearly a decade, the SOA and the Stanford Center on Longevity have collaborated on retirement income research. Their joint studies include:
 - [*Optimizing Retirement Income Solutions in Defined Contribution Retirement Plans A Framework for Building Retirement Income Portfolios*](#);
 - [*Foundations in Research for Regulatory Guidelines on the Design & Operation of Retirement Income Solutions in DC Plans*](#); and
 - [*The Next Evolution in Defined Contribution Retirement Plans: A Guide for DC Plan Sponsors to Implementing Retirement Income Programs*](#).



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