
Wade Pfau's Latest Book

By Kerry Pechter Thu, Nov 16, 2017

"This book presents the probability-based approach" to retirement spending strategies, Pfau told RIJ in a recent interview. 'If annuities are off the table, here's what you can do.'



Wade Pfau wasn't always a financial prophet, leading a tribe of advisors to the promised land of retirement security. Only a few years ago, he was an unknown Ph.D. from Iowa via Princeton who, while teaching economics in Japan, began analyzing the potential effect of Social Security privatization. In the global ferment over retirement financing, he saw the basis for a career.

Since 2011, Pfau, who is 40, has produced a remarkable body of work on retirement income planning. Through award-winning articles, involvement in the Retirement Income Industry Association, as a professor at The American College, through speaking engagements and a blog, he's achieved wide recognition, especially for his refinement of existing research on "safe withdrawal" strategies in retirement.

Pfau has a new self-published paperback, the second in a planned series of four books on different facets of retirement planning. (The first book covered reverse mortgages.) The new book's title ("[How Much Can I Spend in Retirement?](#)") echoes the question that near-retirees or new retirees so frequently ask.

The subtitle, "A Guide to Investment-Based Retirement Income Strategies," gets to the heart of the matter. This is a handbook for advisors and individuals who want to successfully generate a stable, adequate, lifetime income from a more or less volatile portfolio of stocks, bonds, mutual funds, exchange-traded funds and cash equivalents. It's also a review of the literature on this topic, including Pfau's own academic papers.

Annuities are not the focus here. Pfau himself, like many of his academic peers, believes that a combination of investments and income-producing annuities offers the best blend of safety and upside potential for many retirees. But he knows that most advisors and clients still regarded annuities as somewhere between mystifying and radioactive by most advisors and clients; he aims his latest book at no-insurance crowd.

"This book presents the probability-based approach," Pfau (below, right) told *RIJ* in a recent interview that was squeezed between a speaking engagement and a flight home to the Philadelphia area. "It might be better to look at an annuity in retirement. It's still more efficient to go that route. But if annuities are off

the table, here's what you can do."



Pfau's audience

This book isn't for beginners. Pfau expects his audience to resemble the people who visit his [Retirement Researcher](#) homepage: a mix of financial advisors and sophisticated do-it-yourself investors. They include professionals, engineers and government officials who are nearing retirement. They typically have savings of "a couple of hundred thousand dollars to a couple of million."

"I tried to write the book from this perspective: 'You could do all of this on your own. But if you don't want to put in all the time and energy needed, you might want to use an advisor,'" Pfau told *RIJ*.

"There may also be the case where one person in the family is sophisticated about financial planning but you want to prevent other members of the family from being left on their own if that person dies. In that case, you also might want to use an advisor. But I tried to provide enough instruction for the do-it-yourself person, if they have some financial sophistication."

"I tend to speak to advisors who are already thinking about using an integrated approach to retirement income planning. But that's probably still a small percentage of all advisors. Most people are still purely investment managers. I don't know what percent is open to both, but it's probably a small percentage. I get the sense that more people are thinking about it. I spoke at the (National Association of Personal Financial Advisors) this year, and they were more hospitable to annuities than they were when I last spoke there, in 2013. They used to view all commissioned products as bad, now some are saying that they have a purpose."

Protection without pooling

Pfau's probabilistic approach isn't purely risk-based. It doesn't necessarily mean staying fully invested throughout retirement and taking income only in the form of system withdrawals from a total-return portfolio. Instead, it combines risky assets with common non-insurance risk management methods. These include time-segmentation or "bucketing," asset-liability matching, diversification, Treasury Inflation-Protected Securities, variable spending, bond ladders, cash reserves, periodic rebalancing and dynamic

asset allocation in the face of changes in volatility.

This approach is ultimately based on a buy-and-hold, fundamentally optimistic belief that stocks may be volatile in the short run but they'll pay off in the long run. It's a method where the retiree holds onto market risk, to varying degrees, in order not to lose out on market rewards.

Tax minimization strategies, health care costs, and Social Security claiming strategies don't receive much attention here. Pfau regards tax liability as a factor that's too idiosyncratic to include in a broad discussion of retirement investing. He's saving Social Security for a future book.

What makes Pfau's work significant is not so much the thoroughness or the specificity of his mathematical calculations—the field of probabilistic retirement income planning is already rife with false precision—but the authoritative attention that he has brought to the problem of spending from an at-risk portfolio in retirement.

Such attention was needed, because surveys show that many near-retirees myopically believe that they can withdraw as much as 10% of their savings in retirement and because most advisors haven't given the problem of safe withdrawal rates much thought. Pfau has also been vocal in pointing out that, given today's historically high stock and bond prices, future asset valuations—and any withdrawal rates based on them—are likely to be historically low.

Future books

When asked what brought him to this field of research, Pfau said, "It was a mix of factors. I had the interest in investing. I was always a big saver. With my dissertation in grad school I stumbled into Social Security. Then I simulated the outcomes from the Bush proposal to privatize Social Security, and after that I started looking at the pension systems of other countries. When I started studying for the CFA [Chartered Financial Analyst designation] I came across [Bengen's 4% rule](#) in a footnote. I realized what a hot area this was, and I felt like I had found my niche."

Pfau belongs to the small number of quants and academic economists who have succeeded in building marketable personal brands by dint of prolific publishing, ubiquitous public speaking, association with a good university, and successful commercization or monetization of their ideas.

His collaboration with [McLean Asset Management](#), which started in 2012 and became formalized in 2014, marks Pfau's passage into the commercialization phase. He is a principal and director of retirement research at the registered investment advisor, which was founded in 1984 and is based in McLean, Va., and Bedford, NH. Together they've collaborated on the development of the Retirement Income Optimizer framework for income planning. They expect to turn it into software for individuals and advisors.

Pfau's next book, planned for an October 1, 2018 release, will cover the integration of annuities and investments in retirement income planning. The final book in his series will bring together the best ideas of the previous books, he, along with discussions of tax management and estate planning.

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