

# inSights

## The Client's "Safe Savings Rate"

inStream **Safe Savings Rate** financial planning module provides advisors with a new and innovative way to help clients plan and save for their retirement.

**Safe Savings Rate** plans help clients establish their necessary "safe savings rate" required to achieve their desired retirement objectives. Our inaugural inStream Insights column takes a look at the conceptual underpinnings behind the "Safe Savings" research, addresses how inStream is incorporating the findings into its wealth management platform, and highlights how clients can benefit from having a meaningful conversation around their "**safe savings rate**".



**Revolutionize** advice.

**Run** a smarter practice.

**Invigorate** client relationships.

### Introduction

Recent retirement income planning research has revealed that targeting a specific dollar amount for retirement does not necessarily guarantee a "safer" and more "secure" retirement. While we know that one's asset allocation will change through time, multiple research studies show that a client's investment returns will have a more pronounced impact on their retirement objectives as the client gets closer to their desired targeted retirement date. This is because the client has already converted the bulk of their human capital into financial capital – in other words, their investment portfolios are generally the largest part of their complete "life" portfolio as they near their retirement age. As a result, investment returns will have a more significant effect on a client's wealth in absolute terms at this stage of their investment horizon. Historically, we've also seen that pre-retirement bull markets have resulted in larger wealth accumulations at retirement, but a lower sustainable withdrawal rate from retirement date assets. On the other hand, pre-retirement bear markets typically result in less wealth at retirement, but the sustainable withdrawal rate has worked out to be much higher. Because of this mean reversion, focusing on what you can control – in other words, realistically save – in an effort to meet your financial objectives should be a critical part of the financial planning process.

### Conceptual Underpinnings

To help determine whether a client is on track to meet their retirement goals, inStream has developed a new planning module called "Safe Savings Rate". An industry first, the module applies innovative research surrounding how much of a client's income should be saved to meet their retirement goals. First described by leading retirement planning academic and inStream Financial Planning Scientist, Wade Pfau, PhD, in the *Journal of Financial Planning*, this new approach to retirement planning is more

sophisticated and integrative than traditional planning methodologies. Wade's article in the *Journal of Financial Planning* received the inaugural *Journal of Financial Planning* Montgomery-Warschauer Editor's Award.

The overriding benefit of incorporating a **Safe Savings Rate** plan into the planning process is that it considers the planning dilemma as a holistic opportunity for both pre- and post-retirement scenarios and diminishes the concern about achieving a specific wealth accumulation target directly tied to a "sustainable withdrawal rate". The Safe Savings Rate analysis ignores the client's targeted level of wealth at retirement, and instead focuses on whether or not the client is able to achieve future financial goals and objectives by saving a certain (safe) percentage of their annual income.

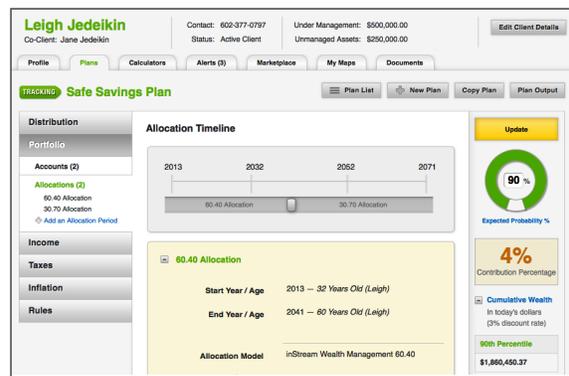
For advisors, relying solely on a "sustainable withdrawal rate" calculation to meet a client's retirement goals will have some inherent drawbacks. Most notably, it is too difficult to project whether or not clients are truly on track to meet their desired wealth accumulation targets by focusing only on a future estimated withdrawal rate. As we mentioned earlier, the portfolio returns achieved in the final years prior to the defined retirement age will very likely have a disproportionate impact on the client's final wealth accumulation amount, and may significantly impact the client's ability to achieve their desired retirement goals.

To help rectify this, advisors should strongly consider introducing the "Safe Savings Rate" calculation into their planning process. The inStream Safe Savings Rate planning module will determine the lowest possible savings rate (to confidentially achieve a client's goals) for a client who is 1) in the pre-retirement phase, 2) has accumulated a specific level of financial assets, 3) has a desired retirement date and an estimated future income stream up to retirement, and 4) has a projected retirement spending plan.

### Understanding the Calculations

The Safe Savings Rate plan is based on inStream's Distribution Management System, which is designed to allow advisors to dynamically establish realistic distribution parameters and model how advisors handle real-life client distributions.

To quantify the appropriate "safe savings" rate, inStream will run multiple, relevant simulations. The initial default savings rate is 10% of the client's income. If that "savings



rate" is unsuccessful at the desired probability of success, or deemed as being "unsafe", then inStream's engine will adjust and approach the safe savings rate calculation in a stepwise manner.

As an example of how this iterative process would work, let's assume your client would like to see a 90% probability of achieving their stated objectives. inStream starts its analysis with an initial savings rate of 10% of the client's income each year. If the probability of success only yields 82%, the "Safe Savings" tool will then raise the assumed savings rate to 15%, and rerun the simulation. In this particular example, the probability of success now recalculates to 93%. However, this savings rate is too high (or too "safe"). inStream will then automatically rerun the simulation until the "safe savings" rate yields a 90% probability of success. This inStream process yields the client's "Safe Savings Rate".

### Conclusion

The "Safe Savings" rate research and the new inStream "Safe Savings" planning tool is designed to provide a holistic framework for mid-career and pre-retiree clients and advisors to develop a real "retirement plan progress report" by determining the savings rate that is needed to confidently achieve future goals and objectives. The inStream Safe Savings planning module may serve as a reality check for many clients. On the other hand, some clients may find that they are on track to comfortably retire with a lower savings rates than that which they may have otherwise thought possible.

We are excited to deliver the inStream "Safe Savings" planning module, the industry's first planning tool that will help advisors provide clients with a better retirement strategy and increase their chances of achieving a successful wealth management experience. ●