Retirement Planning

WJ Interests
WEALTH ADVISORS

What Makes a Financial Plan...Better?

A financial plan is a personalized roadmap that outlines your financial goals, and the strategies to achieve them. A retirement plan's success generally comes down to just 3 numbers:

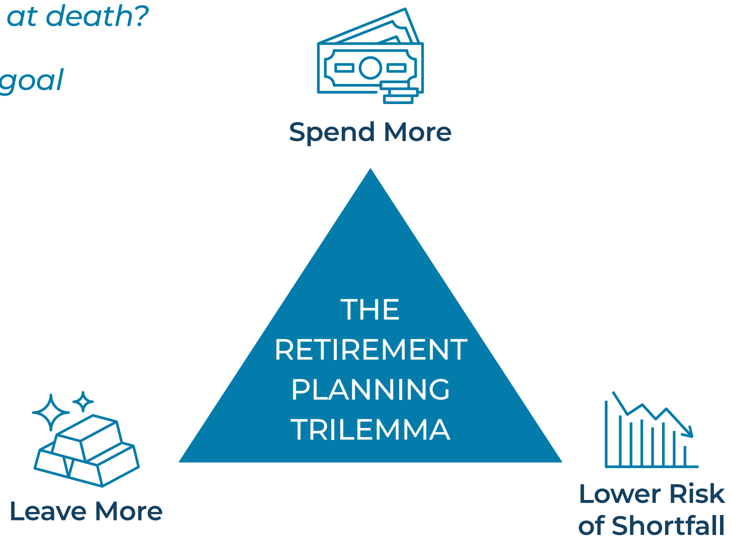
1. How much money can you spend in retirement?

2. How much money can you leave at death?

3. The risk of falling short on either goal

These 3 numbers are at odds with one another and form a **trilemma**. If your goal is to increase one point of the triangle, you must do so at the expense of the other two.

So if a retirement financial plan is only a series of tradeoffs, what does it mean to actually make a plan better?



At WJ, our vision is that every client lives a fulfilling life by making the most of their financial resources. We want to challenge clients to think bigger. What would you do if you could spend 20% more per year? What impact could your wealth have if you were to leave a larger legacy?

The trilemma exists because it assumes everything is held constant. Spending never changes, investments are static, and your plan ends at death. But that's not what happens in the real world.

Spending is dynamic, adjusting to different economic conditions and stages of life. Investment portfolios can have different objectives and be optimized to achieve different goals. Finally, the assets you're likely to leave at death have different time horizons and objectives, and those should be recognized.

With a more dynamic investment approach, smart retirement spending strategies, better planning assumptions, and a more intuitive way of measuring planning risk, we can finally break out of the financial planning trilemma.

Part 1: Are Traditional Financial Models Limiting Your Retirement?

The concept of a retirement plan is simple.

1. We estimate how much money you'll have at retirement.

2. We estimate how much you'll spend each year until your death.

3. We estimate how investing the money helps it last longer.

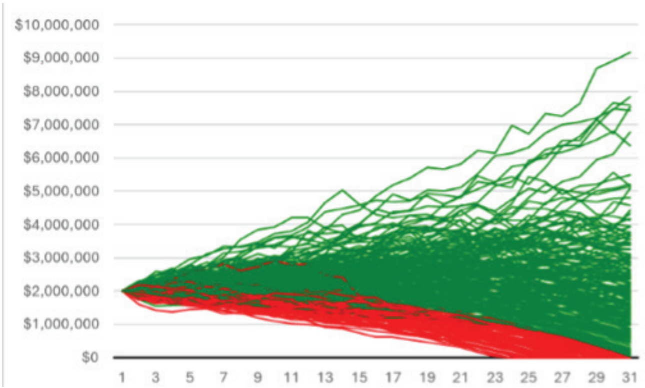
Most of those assumptions are held fairly constant in the planning process, except for investment returns, which we account for in a process called Monte Carlo Simulation.

Monte Carlo Simulation for Retirement Planning

We have enough market history to get a good sense of how different investments behave over time. We can enter some statistical parameters that model market returns and simulate different returns for every year in a retirement plan. An example to the right shows the computer-generated returns for a 30 year retirement horizon.

ANNUAL RETURNS

1000 SCENARIOS



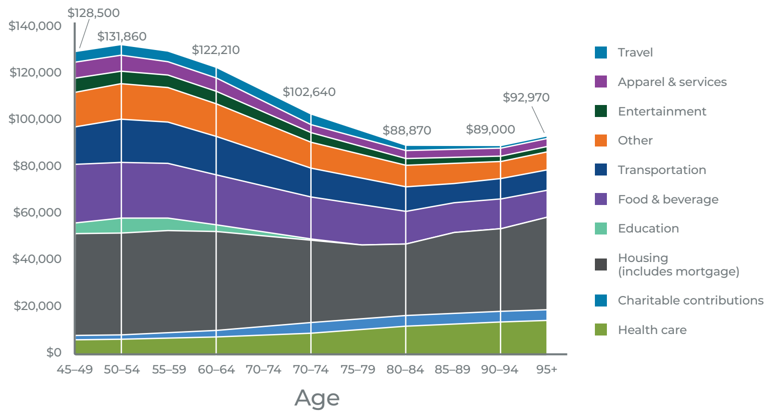
We can then use the computer to repeat this 1000s of times resulting in "Monte Carlo" distribution of possible retirement outcomes.

By counting how many of those scenarios still have money at the end (green), and dividing by the number of trials you ran, you get **Probability of Success**, the industries favored metric of planning risk.

Many Financial Planning Assumptions are too Conservative

Many of the assumptions used in traditional financial planning are conservative:

- We assume spending grows at a constant rate every year until death, however data from JP Morgan Chase suggests households reduce their spending throughout retirement.
- We assume spending doesn't adjust to markets and the economy.



- Portfolios are static throughout the life of the plan regardless of how circumstances change.
- We run most financial plans out to around age 93 (give or take) for both spouses. The likelihood that both spouses live to 90 is about 6%.

A plan that is overly conservative gives client's anxiety about the viability of their plan and leads to hoarding assets. Our goal for the following strategies is to give clients the confidence to maximize how they utilize their wealth.

Part 2: Don't Let Bad Market Timing Derail Your Plan

In the 1990s, Bill Bengen, creator of the **4% rule**, found that a retiree's **average** returns aren't what determine success—it's the **sequence** of returns that matters.

The first **15 years of retirement** are critical. If returns are strong early on, even a later bear market won't derail the plan. But if early returns are poor, withdrawals can deplete the portfolio too quickly—even if returns improve later.

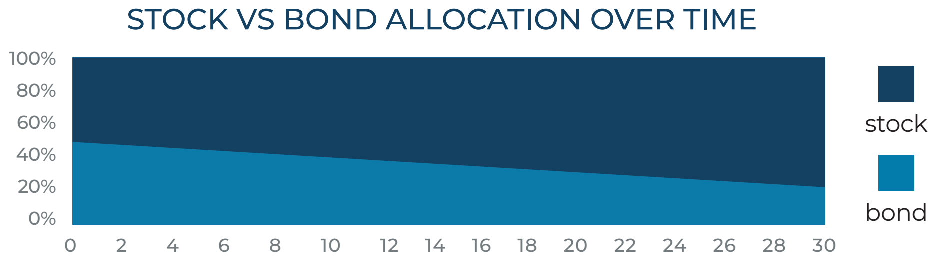
A Smarter Approach: The Rising Equity Glidepath

Wade Pfau and Michael Kitces, arguably the most respected retirement experts in the world of financial planning, published a study called "Reducing Retirement Risk with a Rising Equity Glidepath." They challenged the traditional view of reducing stock exposure with age. Instead, **gradually increasing equity exposure throughout retirement** can **improve outcomes.**

Here's why:

- **Early in retirement,** holding more bonds protects against bad market timing.
- **Later in retirement,** adding equities allows for higher long-term growth.

The chart to the right illustrates what a rising equity glidepath allocation looks like:



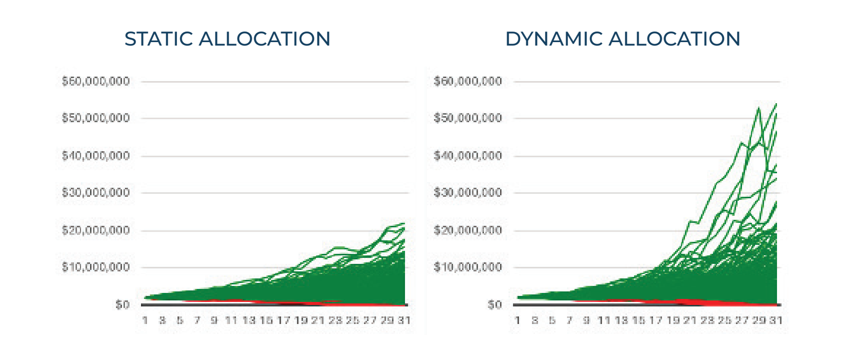
Example: Static vs. Rising Equity Glidepath

A client with **$2 million** withdraws **4% annually ($80K, adjusted for inflation).** We compare two strategies:

1. **Static Portfolio:** Always 60% stocks / 40% bonds
2. **Dynamic Portfolio:** Starts at 40% stocks / 60% bonds, but only withdraws from bonds early on

MONTE CARLO COMPARISON	STATIC	DYNAMIC
Average Return	6.9%	7.8%
Average End Wealth	$4,893,598	$6,106,237
Probability Of Success	94.3%	94.8%

We'll run two Monte Carlo Simulations. Here are the results:



For about the **same probability of success,** we were able to leave a legacy that was **25% larger** on average, with many scenarios ending much higher!

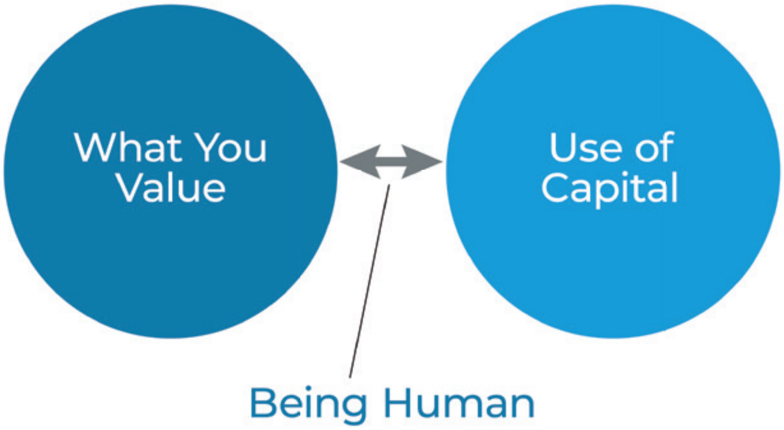
Why It Works

Over the course of the plan, the client takes more equity risk on average (despite starting with less). That's evidenced by the higher return you see in the results. The benefit of higher returns is a much larger legacy.

What's less intuitive is that the probability of success went up! A rising equity glidepath **manages sequence risk** by keeping the portfolio conservative when withdrawals matter most and shifting to growth assets later—boosting both retirement security and long-term wealth.

Part 3: Reframing Risk: Why Flexibility Beats Fear in Retirement

Retirement can feel daunting—your paycheck disappears, and you're left hoping your savings will last. Many clients say they'd like to "die broke," striving to enjoy every dollar they've accumulated for themselves, yet their financial plans often don't align with that goal.

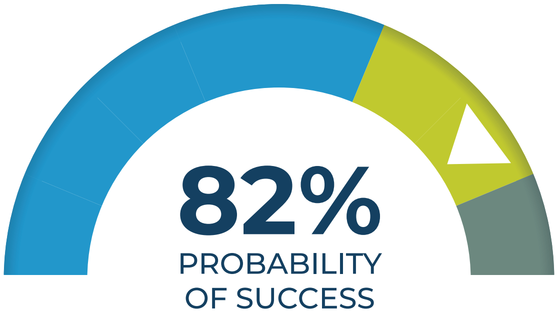


Traditional financial models reinforce fear by misframing risk and encouraging over-conservatism. The key issue? How **Probability of Success** is used.

Improper Framing of Risk

Probability of success is typically shown on a 0-100% scale, leading clients to equate it with school grades—90%+ feels like an "A," while anything below 70% seems like failure. Making things worse, this region is often marked as the green zone, reinforcesreinforcing that unless probability of success is high, clients are failing.

How Adjustments Make All the Difference in Retirement Planning



If you have a 70% probability of success, that implies that you have a 30% probability of failure, right? As we will show, this is anything but the case if you're able to adjust. Probability of Success is a **static** measure at a single point in time, assuming no adjustments are made. This is unrealistic and overly cautious. Reframing the chance of failure to the probability of making an adjustment removes the binary nature of probability of success.

This may surprise readers, but our the "best guess" for how much someone can spend in retirement is found by solving for a **50% probability of success.** That's because at 50%, the plan assumes we achieve our average return estimate. The plan only must be adjusted if we **overestimated** returns. That may initially strike readers as risky, but consider that we update plans every year, and will adjust on the fly if a plan is behind schedule.

Example: How Flexible Spending Works

A client with $2 million, a 30-year horizon, and a 5% expected real return wants to maximize spending. At a 50% probability of success, they can withdraw **$116K per year, adjusted for inflation.**

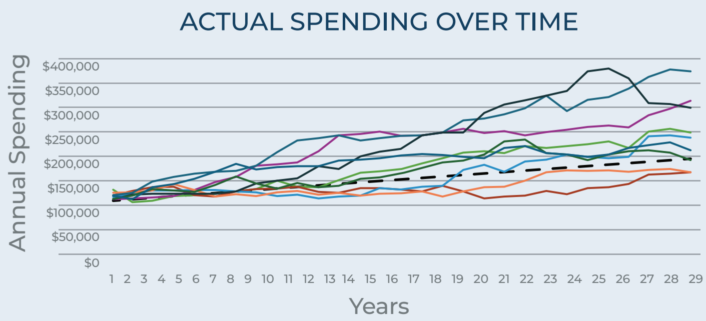
We model real-world adjustments using the following guardrails:

- **If Probability of Success drops below 40%, spending is reduced to restore balance.**
- **If Probability of Success exceeds 60%, spending increases to optimize lifestyle.**

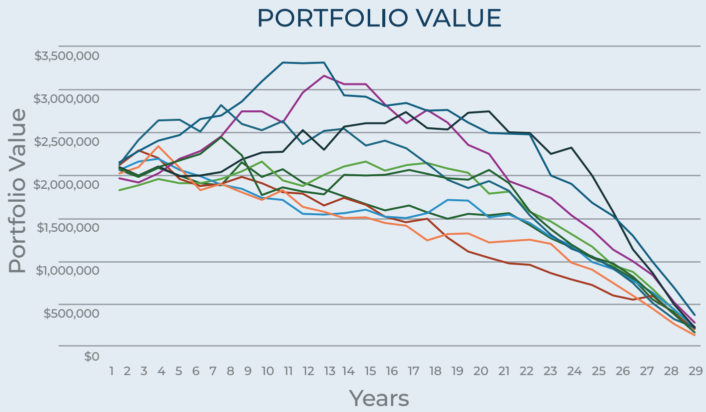
The chart below illustrates 10 scenarios of staying within those guardrails over time.

PROBABILITY OF SUCCESS OVER TIME

The next chart shows how annual spending changes throughout the plan. The dashed line is our initial spending plan. Any line above it means we adjusted spending up, and anything below means we adjusted spending down.



Remember, this client wanted to spend as much as they possibly could. Here are the resulting portfolio values for these flexible spending plans:



As expected, the portfolio approaches $0 in the final year as our hypothetical client tries to maximize spending during their life, and “die broke”. Despite the plan having a 50% probability of success, 0 plans ran out of money, and they never would.

A Better Way to Plan

Retirement planning isn’t about hitting an arbitrary “safe” probability—it’s about **flexibility.** If your plan has a PoS above 50% (which most do), you have room to adjust and optimize your spending.

Instead of fearing risk, we should embrace dynamic planning that reflects real-life decisions. That’s how you retire with confidence—and make the most of your wealth.

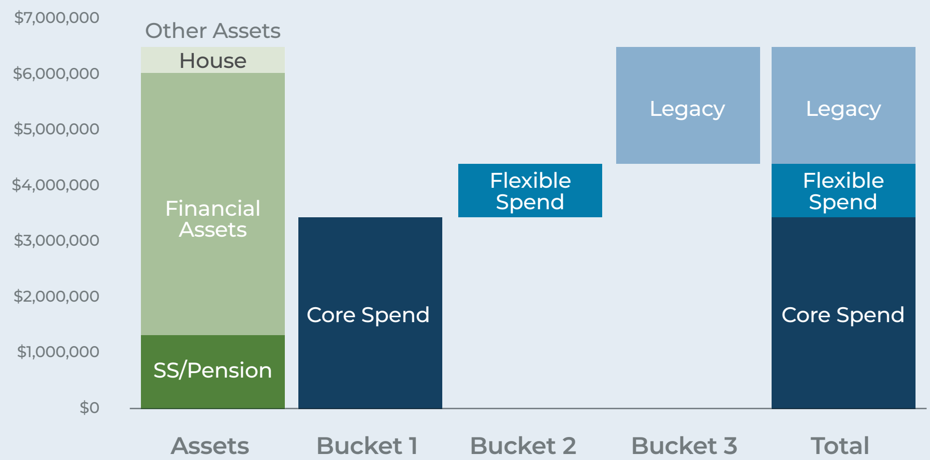
Part 4: No More One-Size-Fits-All: A Goal-Based Approach to Investing

Traditional financial planning treats all money the same—blending growth and safety to ensure a portfolio lasts until death. But should next month's bills be invested the same way as money meant for your kids decades from now?

A bucketed approach aligns investments with specific goals:

- **Bucket 1: Core Expenses –** Covers core, non-discretionary spending (e.g., bills, groceries, transportation). This should be **low-risk,** using assets like TIPS to ensure stability.
- **Bucket 2: Flexible Spending –** For discretionary expenses like travel and home upgrades. Since these expenses can adjust, this bucket **takes moderate risk** for higher potential returns.
- **Bucket 3: Legacy & Long-Term Growth –** Money earmarked for heirs or charity. With a long time horizon, this bucket can be **invested aggressively** for maximum growth.

RETIREMENT BUCKETS



Recap of Modern Financial Planning

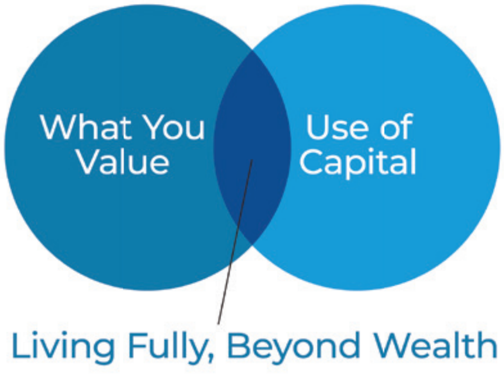
Along with understanding the limitations, conservative assumptions, and risk framing of traditional planning, we've provided 3 tangible strategies that will improve how clients utilize their assets.

1. **Reducing Timing Risk –** Spending first from safer assets allows for greater stock exposure over time, improving long-term portfolio growth without increasing failure risk.

2. **Dynamic Adjustments –** Planning for spending flexibility lets us aim for a lower probability of success (or higher probability of adjustment), allowing for more spending or a larger legacy.

3. **Better Goal Alignment –** Separating core spending, discretionary funds, and legacy assets optimizes investment decisions, often increasing both spending and inheritance.

By structuring finances around real-life priorities, we bridge the gap between what clients value and how they use their wealth. [Full case study here].



Beyond Wealth | A Journey to Fulfillment

Why does money matter to you? Security is essential, but wealth can also bring joy, strengthen family bonds, and create lasting impact.

Spending for Happiness

Wealth isn't just a safety net—it's a tool for fulfillment. Research shows spending on experiences, rather than material goods, leads to greater happiness. Consider how you can enrich your life through travel, passions, quality time, and personal growth.

Supporting Your Family

Financial support is often most impactful between ages 27-33, a time of major life transitions. Helping loved ones now lets you witness the benefits firsthand, while thoughtful inheritance planning ensures long-term stability and opportunity for future generations.

Creating Meaningful Change

Generosity enhances well-being and purpose. Supporting local causes—like food banks, shelters, or education—can make a lasting difference. Giving now allows you to see your impact, while legacy gifts ensure your values live on.

Looking Ahead

Wealth isn't just about accumulation—it's about intention. Thoughtful financial choices can bring happiness, strengthen relationships, and shape a better future. Now is the time to make your wealth truly meaningful.

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