

HUMANS VS RETIREMENT

A WHITE PAPER FOR FINANCIAL PLANNERS & PARAPLANNERS

— this is not to be used with clients

The Skill of *Spending* in Retirement

Why retirement income is a behavioural problem dressed up as a financial one, and what to do about it.



Dan Haylett

HUMANS VS RETIREMENT

IN PARTNERSHIP WITH

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&G

A note before we begin

I have spent the last decade meeting, talking with and listening to people who have done the hard work. They saved when they were supposed to save. They invested when they were supposed to invest. They sacrificed, deferred, planned, listened. They built up a pot that their younger selves could only dream of.

And then they get to retirement, and they cannot bring themselves to spend it.

This is the part of the job nobody trained me for. The technical questions about drawdown rates and tax wrappers and asset allocation, the profession has answers for all of those, and the answers are mostly good. The harder question, the one that arrives sooner or later in almost every meeting, is the one nobody puts in a textbook.

“Am I allowed?”

Sometimes it is said directly. More often it is a look. A pause. The sentence that trails off. The seven-figure portfolio holder who tells me, with genuine anxiety, that they have been wondering whether they should treat themselves to the trip they have always dreamed of.

I wrote this paper for the planners and paraplanners who recognise that look. It is not really a paper about retirement income mechanics, al-

though you will find plenty of those. It is a paper about what our job actually is now, in the spending phase, with this generation of clients, in a world where saving has been largely solved and spending has barely been started.

It draws on the people who have shaped my thinking and become friends along the way. **Bill Bengen**, who gave us the 4% rule and then quietly outgrew it. **Wade Pfau**, who taught me to think about retirement income as a spectrum rather than a binary. **Michael Finke** and **David Blanchett**, whose work on the psychology of decumulation should be required reading. **Michael Kitces** on guardrails. **Brian Portnoy** on funded contentment. **Bill Perkins** on memory dividends. **Jordan Grumet** on purpose and regret. None of these people invented what I am going to say next, and several might phrase it differently. But this is what those conversations have taught me, and what years of client meetings have shown me to be true.

I hope it gives you something to use on Monday morning.

This white paper has been produced by Dan Haylett of Humans vs Retirement, in partnership with M&G. The views expressed are the author's own.

Dan Haylett

HUMANS VS RETIREMENT

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The Human Problem

Before the maths, the person. The questions clients are really asking, the fears they never put on a fact-find, the biases no cashflow model can see, and what retirees actually do with the money once they stop working.

The wrong question

For most of my professional life, the question at the centre of retirement planning has been: how much can someone safely spend each year without running out of money? It is a reasonable question. There is a long, distinguished body of research devoted to answering it. Bill Bengen's 1994 paper gave us the 4% rule. Wade Pfau and others have stress-tested it across markets and geographies. Morningstar updates its safe-withdrawal estimate every year. The probability-of-success number is, for most cashflow software, the headline output.

And yet.

If you sit in enough client conversations, eventually you notice something. The question the client is actually asking is not the question the industry is answering. The industry is answering: how much can you mathematically afford to spend? The client is asking: how much am I emotionally prepared to spend? Those are two completely different questions. They have different answers. And the gap between them, vast, persistent, almost invisible to a spreadsheet, is where most retirement planning quietly fails.

There is a finding I now share at the start of every keynote I deliver, drawn from the recent wave of large-scale retirement studies. One in four retirees say they struggle to find purpose and meaning in retirement. One in four. Around 42% report feeling anxious about money despite having suf-

ficient assets, and only 23% have ever discussed their fear of running out of money with their adviser, even though it is consistently their biggest fear. Until we are clear-eyed about the fact that retirement is a meaning problem before it is a money problem, we will keep solving the wrong half of it.

Bengen himself, in interviews over the last few years, has been the first to point this out about the maths. The 4% rule was always a ceiling, not a target. It was the answer to a worst-case-scenario question: what is the maximum you could have safely withdrawn over the worst 30-year period in modern financial history? Using the 4% rule, the typical retiree over the last 30 years ended up with between three and five times more than they started with. But the rule got mistaken for a target, then for a recommendation, then for a moral position. And so a generation of retirees adopted withdrawal rates calibrated to the 1966 cohort and lived as though every year might be 1966.

“The 4% rule was a ceiling, not a target. It got mistaken for a recommendation, and then for a moral position, and a generation of retirees lived as though every year might be 1966.”

ON BENGEN'S ARGUMENT

Wade Pfau has written extensively about how the profession sits between two philosophical poles. The probability-based school says: invest in growth assets, withdraw at a sustainable rate, ride out volatility. The safety-first school says: floor the essentials with guaranteed income, then take risk only with what is truly discretionary. Pfau's contribution is to point out that these are not competing answers to the same question. They are answers to different questions, suited to different clients, and the planner's job is to know which question the person in front of them is actually asking.

My own experience has pushed me harder in one direction. Almost without exception, the clients I work with do not need a more accurate calculation of the maximum sustainable withdrawal rate. They need permission to use what they have. Because what they have is, mathematically, almost always enough. It is the psychology that is underfunded, not the portfolio.

So this paper is not going to spend a lot of time on safe withdrawal rates. The technical answers exist, and you have software that calculates them. What I want to do instead is start where the actual problem starts: with the human being, with the fears and biases that drive their behaviour,

and with the toolkit of solutions a modern planner can assemble to do the job properly.

Because here is the thing. If you solve the technical question and ignore the human one, your client will underspend, die wealthy and quietly disappointed. If you solve the human one and ignore the technical question, your client will run out of money. If you solve both, you have done something the industry has barely begun to take seriously: you have helped someone turn a lifetime of saving into a life worth living.

And before anyone accuses me of telling people to blow the lot, the money does have to last. People are living longer than they plan for, retirements now routinely run thirty years or more, and a plan that funds a brilliant first decade and then leaves someone short at eighty-five has failed just as badly as one that leaves them rich and quietly disappointed. Funding a longer life is a real job. It is also the job our technical machinery is genuinely good at. The reason this paper spends its energy on the human side is not that funding the years ahead doesn't matter. It is that the funding question is already being answered, and the human one is barely being asked.

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A plan with a 100% success rate is a plan that will 100% fail.

That is the actual job. Everything in this paper is in service of it.

The five fears nobody puts on the fact-find

02

There is a survey from Allianz that I have quoted on stage more times than I can count, because it is the single most clarifying piece of data about the inner life of a retiree that I know.

61%

ALLIANZ, 2023

of people are more afraid of running out of money than they are of running out of life.

Read that twice. The fear of running out of money is, for most people, larger than the fear of dying. Whatever else our profession is doing, it is operating downstream of a fear that is more powerful than the fear of death itself.

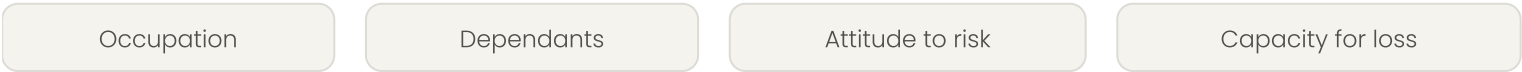
Now hold that next to two others. Forty-two per cent of retirees report feeling anxious about money despite having sufficient assets. Only

twenty-three per cent have ever discussed their fear of running out of money with their adviser, even though that fear is consistently the biggest one they carry. The fear sits in the room. We don't acknowledge it. The fact-find captures occupations, dependants, attitudes to risk and capacity for loss. It rarely captures fear directly.

WHAT WE CAPTURE VS WHAT DRIVES THEM

Above the surface, and below it

ON THE FACT-FIND



THE SURFACE

BENEATH IT — THE FIVE FEARS



1 • Fear of outliving savings

The headline fear. The one most cashflow software is designed around. It pairs with longevity risk, which the industry treats as a number to be modelled and the client experiences as a question that has no good answer: how long will I live? Long enough that the client cannot afford to plan for the average, and short enough that planning for the maximum feels absurd. The safe-withdrawal literature was largely built to answer this fear. It does not, on its own, dissolve it.

2 • Fear of regret

Almost completely absent from the profession's standard conversation, and it might be the most important one. It is the fear of getting to the end of one's healthy life and discovering that the trip never happened, the gift never got given, the thing one always wanted to do never got done. Bill Perkins has written more eloquently on this than anyone. The central argument of *Die With Zero* is essentially that fear of regret should be priced into the plan as seriously as fear of outliving savings, because it is, on aggregate, a far more common ending.

3 • Fear of a falling standard of living

Not running out, but getting visibly poorer year on year. Watching the lifestyle you built quietly contract. This pairs with inflation risk, and it is one of

the few fears where the planner's standard tools, diversified equity exposure, real-return assets, inflation-linked income, are doing genuinely valuable work. But it also has a behavioural component that gets underweighted. Clients fear shrinkage, not just absolute decline. The plan needs to reassure them on both.

4 • Fear of dependence and indignity

The fear of being a burden. Of losing autonomy. Of needing care and not having it, or of having it but at the cost of agency. It pairs with health risk, and it is the fear that produces the over-saving we see in the late stages of retirement, the cohort that hoards capital against a care-cost scenario most of them will never experience in the form they imagine.

5 • Fear of losing money

The simplest, the most visceral, the one that gets activated by every market correction. It pairs with market risk and with the better-known concept of sequence-of-returns risk. It is also the fear that produces the largest share of behavioural mistakes: the panic sell, the bond reallocation at the wrong moment, the cancellation of the trip because the portfolio has had a wobble.

Here is what I want to underline. Of those five fears, only one, the first, is what the standard probability-of-success number is calibrated to. The other four don't even appear in the calculation.

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A 90% probability of success only addresses one of the five fears your client is actually carrying. The other four don't show up in the maths.

IN THE ROOM

I now begin discovery meetings, with retired or near-retired clients, by reading those five fears out loud and asking which of them resonate. The conversation that follows is more honest, more useful, and more directly tied to the planning work than any risk questionnaire I have ever used.

It also signals something to the client that they almost never hear from a financial professional: that I take the inner life of money seriously, not just the outer mathematics. That signal alone changes the relationship.

”

The biases your cashflow model can't see

Fears are the things clients can articulate. Biases are the things they can't. They run underneath the conversation. They are the reason a perfectly sensible recommendation gets nodded at and then quietly ignored, the reason a plan that pencils out beautifully fails to translate into action, the reason a client can hold the spreadsheet in their hands and still not believe it.

Behavioural finance is fashionable, and there is a real risk of it becoming a kind of incantation in our profession, names of biases dropped in client meetings as though naming a thing dispels it. Naming doesn't dispel anything. But understanding does shape how you build a plan. Five biases account, in my experience, for almost all of the behavioural drag in retirement planning.

Loss aversion

Daniel Kahneman and Amos Tversky's foundational finding: losses hurt about twice as much as equivalent gains feel good. In accumulation, this is mostly an academic point. In decumulation, it becomes the gravitational force around which the whole client experience orbits. Every withdrawal feels, on some level, like a loss. Every market drawdown feels like a wound. This is not a flaw to be argued out of. It is a feature of the human

nervous system, and a plan that doesn't accommodate it will keep losing arguments to it.

Mental accounting

Richard Thaler's Nobel-winning contribution: people don't treat money as fungible. We sort it into mental categories, sacred and spendable, money for now and money for never. The pension pot is almost never just money. It is sacred money, built by forty years of deferred gratification, and there is something close to a taboo about spending it. The instinct that built the pot is the same instinct that prevents it from being used. Almost everything I'll say later, about why guaranteed income produces twice the spending, about why a retirement salary works better than a withdrawal, about why bucketing helps, is at root a way of working with mental accounting rather than against it.

Status quo bias

Most clients would prefer not to make a decision today. A plan that requires the client to actively choose to spend more will reliably under-deliver. A plan that automates the relevant decisions, that schedules withdrawals, builds in pay rises, defaults to action rather than to hesitation, will dramatically outperform on actual lived experience, even if the financial design is identical.

Probability neglect

Cass Sunstein and Paul Slovic showed that humans are bad at small probabilities. Particularly when emotions are involved, we overweight rare bad outcomes and underweight common ones. The vivid, frightening scenario gets all the attention. The boring, statistically likely one gets none.

The fear of residential care is one of the most powerful drivers of over-saving I see. It is worth being precise about what the data actually says, because the honest version of this point is more useful than the glib one. Care is not rare: something like a quarter to a third of people will need some form of it. But at any one time, only around 2.5% of people aged 65 and over are living in a care home, and most of those who go in do so late, and for a relatively short time. A minority face genuinely catastrophic costs. The dread, though, is universal, and it is calibrated to that severe minority rather than to the median experience of short, late, and often modest need.

That gap between the distribution and the dread is exactly what probability neglect predicts. And it is not corrected by quoting probabilities at a frightened person. It is corrected by showing the client, structurally, that the rare bad outcome has been provided for, so the disproportionate fear can finally let go of the steering wheel.

Social comparison

Wealth is never absolute. It is always relative, to peers, to expectations, to the version of one's life one had in mind. Clients monitor their wealth not

just as a means to an end but as a signal of identity. Spending the money down can feel, on some level, like spending the identity down. This is why the wealthiest clients are often the most resistant to spending. The ratchet of comparison only goes one way.

“Behavioural finance is not a vocabulary to deploy in front of clients. It is a design discipline for building plans that work with human nature instead of against it.”

None of these biases are visible in a Monte Carlo simulation. None appear in a suitability letter. None register on a risk profile. They all show up in the conversation, if you know how to listen, and all of them have implications for how the plan is structured.

A plan designed around loss aversion will use cash buffers and structural separations so that volatility never threatens essentials. A plan designed around mental accounting will distinguish clearly between sacred and spendable money. A plan designed around status quo bias will automate the things the client would otherwise fail to do. A plan designed around probability neglect will make rare bad outcomes structurally provided for. A plan designed around social comparison will reframe what wealth is for.

In other words, the behavioural design of the plan is at least as important as the financial design of the plan. Most plans get one. The good ones get both.

What retirees actually do

04

There is a remarkable disconnect between what the retirement-planning industry is calibrated to fear and what retirees actually do. The industry talks about portfolio depletion as though it were the dominant ending. The data says it is the rare ending.

84%

of retirees are likely to die with more money than they had at retirement.

EBRI / WIDER RETIREMENT RESEARCH

14%

is all that actually draw down their capital. The rest live on returns or less, and their pots keep growing.

EBRI

30–40%

of their starting wealth is all retirees spend across a 30-year retirement.

IFS, 2018

1–2%

is how much real retirement spending falls each year, in real terms.

IFS, 2022

“If two-thirds of the wealth our clients built ends up unspent, the question is not whether their plans succeeded. The question is what success was supposed to mean.”

Take a moment with that third number. Over a thirty-year retirement, the average retiree spends roughly a third of what they started with. The other two-thirds either pass to the next generation, sit in a current account doing nothing, or are buried with them in the form of an unused pension.

This is not a story of plans gone wrong. The plans, by their own measure, succeeded. The clients did not run out of money. They did everything right. They also did not, in any meaningful sense, use the wealth they had built. Sixty per cent of it sat there, unused, while the lives it was supposed to fund happened around it.

And the unspent wealth is not just a financial residual. It is the visible record of trips not taken, gifts not given, projects not started, lives not fully lived. Jordan Grumet, whose work I come back to at the end of this paper, spends his professional life sitting with people in their last weeks. His observation is consistent and it is the thing that should haunt every retirement planner: people do not regret what they spent. They regret what they didn't do.

The retirement spending smile, and why the British version is more of a smirk

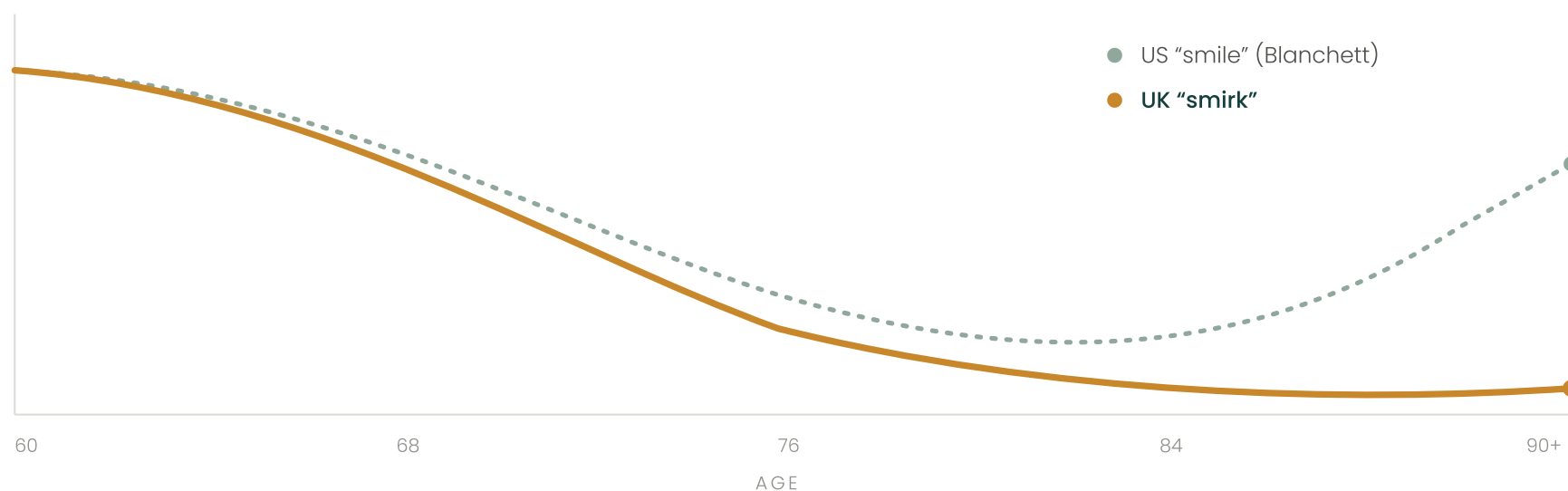
David Blanchett's research at Morningstar gave us a phrase now embedded in modern retirement planning: the retirement spending smile. Looking at the actual spending patterns of US retirees, Blanchett found that real spending tends to fall through middle retirement and then rise again at the very end as health costs come in. Plotted on a chart, it looks like a faint smile, high at the start, low in the middle, slightly higher at the end.

It is an enormously useful concept, and our profession owes Blanchett a real debt for it. But it has been imported into UK practice without much editing, and that is a problem, because the smile is not the right shape for the UK. The late-life uptick that produces the smile in the US data is largely an artefact of the US healthcare system, where retirees pay substantial out-of-pocket costs in the last years of life. We don't have that. We have the NHS.

REAL SPENDING THROUGH RETIREMENT

The US smile vs the British smirk

REAL ANNUAL SPENDING →

*Illustrative shape, after Blanchett (Morningstar) and IFS UK spending data. Not to scale.*

The UK data tells a different story. Real spending here also declines through retirement, by the 1 to 2% per year quoted above, but the late-life uptick is much more muted. It is dampened by the NHS, by social care provision reducing private spending in the last years, and by the fact that the cohort experiencing serious private care costs is smaller than the industry's defensive crouch implies.

The British shape is closer to a downward slope with a small upturn, more of a smirk than a smile. This matters for two reasons. First, a UK plan calibrated to the US smile will systematically over-provide for a late-life uptick most clients will never experience, and that over-provision comes out of the Go-Go years, where it is sorely needed. Second, the UK shape implies an even more front-loaded income strategy.

Healthspan vs lifespan, and the twelve good years

12

GOOD YEARS

Roughly how long the average healthy 60-year-old has before mobility, energy and independence start to decline meaningfully. Not before they die. Before life gets noticeably harder.

144 months 624 weeks 4,380 days

A 60-year-old man in the UK can today expect, on average, to reach 84. A 60-year-old woman is expected to reach 87. Those are the numbers that produce the standard 25 or 30-year projection. We are funding longer lives than any generation before us, and that matters: the money does have to last. But the ONS data on healthy life expectancy tells a second story the lifespan number hides. From age 60, the typical client has roughly 12 to 15 years before chronic illness, fatigue or physical limitation begins to intrude on what they can actually do.

The IFS finds that retiree spending on travel and leisure peaks around age 75 and declines from there, and the peak is not driven by money running out. It is driven by the body running out of capacity for the things the money would buy. A retirement plan modelled flat over thirty years quietly assumes that every one of those years has equal value to the client. The data says they don't. A day at 65 is not the same as a day at 85. Treating them as fungible is the most expensive accounting error our profession routinely makes.

“Almost nobody actually runs out of money. The people who get retirement wrong are the ones who run out of time.”

 IN THE ROOM

When I share the twelve-years number, I translate it. Twelve years is 144 months. It is 624 weeks. It is 4,380 days. The arithmetic does something the abstract framing cannot. It converts an actuarial average into something you can fit on a calendar.

Once it has been named that way, the question “how do we spend this carefully across thirty years?” gets quietly replaced by a much better one: “how do we make sure the next 4,000 days look the way we want them to?” The next time I see those clients, the trip is booked. The conversation has happened. The thing they had been deferring is no longer being deferred. That is what useful planning looks like in the spending phase.

The shape of a real retirement

If retirement spending is a shape rather than a line, it helps to have language for the parts. I use three names, Go-Go, Go-Slow and No-Go, and I make no claim to having invented them. The framing has been kicking around US retirement planning for years, popularised by Michael Stein's *The Prosperous Retirement* in the late 1990s. I find it useful because it gives clients vocabulary for something they intuitively recognise but rarely articulate.

05

THE SHAPE OF SPENDING

Go-Go · Go-Slow · No-Go



Real spending is front-loaded and declines through retirement, not the flat line most software defaults to. Illustrative.

The Go-Go years · exploring

The first decade, give or take. Health is high. Energy is high. The post-work identity is being built rather than maintained. The list of things I always said I'd do is being worked through. Spending is at its highest, and so, in my experience, is fear, because the client has only just stopped earning, the relationship with money is being completely rewritten, and the safety of the saving habit has been replaced with the unfamiliar risk of the spending habit. This is the phase where the planner's job is most clearly about giving permission. It is also the phase where the largest behavioural mistakes get made: the delayed trip, the deferred project, the postponed gift, most of which, looked at from twenty years on, will be regretted.

The Go-Slow years · nesting

Spending drifts down. Not because money is tighter, by this point it is generally clear money is not the problem, but because life has shifted. The bucket-list trips have happened. Energy is lower. The house is enough. Friendships are local. The planner's job here is recalibration. There is often capacity now for things that weren't possible before: mean-

ingful gifting to children or grandchildren, charitable giving with intent, a more deliberate approach to legacy. The conversation shifts from how do we spend this on us to how do we spend this on what matters most. Often, that includes other people.

The No-Go years · reflecting

Health becomes the constraint, where it becomes a constraint at all. Discretionary spending falls to near zero for most clients. Spending concentrates on home, care, dignity and assistance. For a meaningful minority this phase doesn't really happen, they are well one day and gone the next. The planner's job here is protection without distortion. The temptation, in earlier phases, is to plan as though the No-Go years will be long, expensive and certain. They are usually not. Over-providing for them is one of the main mechanisms by which clients end up with the unspent two-thirds.

“Plan for the No-Go years as a real possibility, not as a foregone conclusion. Otherwise you'll quietly build a plan that funds a phase that may never come, at the expense of the phase the client is actually in.”

What this means for income design

The structural implication is that a single, flat, inflation-linked income for thirty years is the wrong shape. It systematically under-funds the Go-Go years, when the client most needs it, and over-funds the Go-Slow and No-Go years, when they have less use for it. Most cashflow software defaults to the wrong shape because the wrong shape is the conservative one. Conservatism is the problem.

A retirement income strategy that takes the phases seriously will deliberately weight withdrawals towards the Go-Go years, plan for the Go-Slow years to be lighter, and reserve a calibrated provision for the No-Go years without inflating the whole plan to defend against them. The shape of the

income should approximately mirror the shape of the spending: front-loaded, declining through middle retirement, with a defined late-life provision. Not a flat line. A slope with a small upturn.

This is harder than it sounds, because almost everything in our profession is biased towards the flat line. Software defaults to it. Compliance gravitates to it. Suitability frameworks evaluate it more easily. But the flat line is the wrong answer to the actual question, and the actual question is how do we fund the life this person is going to live, not how do we produce a defensible-looking income projection.

The Toolkit

No single retirement income tool can do everything a client needs. Three of them, matched to the jobs they each do best, and the behavioural return that never shows up on a factsheet.

The income-vs-capital effect

Of all the research on retirement-spending behaviour, the work that has changed my practice most is David Blanchett and Michael Finkel's 2024 paper *Guaranteed Income: A License to Spend*. If you haven't read it, stop reading me and read them.

The headline finding is this. Across a sample of more than two thousand retirees and pre-retirees, people are systematically more willing to spend from income than from savings, even when the two are economically equivalent. Sixty per cent of respondents said they would feel more comfortable spending on non-essentials, a holiday, a meal out, if they re-

ceived an additional \$10,000 per year of income for life, compared with an additional \$140,000 of retirement savings.

The \$140,000 represents, roughly, the lump-sum cost of buying \$10,000 of annuitised income at retirement. Economically, they are the same. Psychologically, they are nowhere near the same.

THE DATA · WILLINGNESS TO SPEND, BY SAVINGS LEVEL

Group	Spend more from income	Spend more from savings
Full sample	59.4%	40.6%
Savings under \$100k	61.0%	39.0%
Savings \$100k–\$500k	55.1%	44.9%
Savings \$500k or more	62.0%	38.0%

Source: Blanchett & Finkel (2024), *Guaranteed Income: A License to Spend*.

Look at the bottom row. The income-versus-capital effect is not a feature of clients who are anxious because they don't have enough. It shows up most strongly, slightly more strongly than in any other group, among the wealthiest. People with \$500,000 or more are still 62% more likely to spend from income than from capital. The effect is not about need. It is about permission.

“People with a foundational level of guaranteed income spend, on average, about twice as much during their retirement as those without any.”

FINKE & BLANCHETT

Twice as much. This is one of the largest behavioural effects I have ever seen documented in the financial-planning literature. It is far larger than the effects we routinely design portfolios around. And it is almost entirely absent from how the UK retirement-planning profession structures its conversations.

Why this happens

There is a tidy explanation and a messy one, and I think both are correct. The tidy one is mental accounting. People treat money in different categories. Income gets categorised as to be spent. Capital gets categor-

ised as to be preserved. Withdrawing from income matches the category. Withdrawing from capital violates it.

The messy one is deeper. Capital is identity. The pension pot is, for many clients, the visible record of forty years of disciplined behaviour. Spending from it does not just reduce a balance, it spends the evidence. Income does not have the same effect, because income is, by its nature, designed to be spent. The category has a permission structure built into it. Capital does not.

What this means for plan design

Two things follow. The first is that a retirement income strategy should include a meaningful guaranteed-income floor wherever possible, not because it's the most economically efficient way to deploy capital (often it isn't) but because of what it does for behaviour. A client with the essentials covered by guaranteed income spends roughly twice as much as a client whose entire income comes from drawdown.

The second is that framing matters as much as structure. Income is psychologically spendable; capital is psychologically sacred. A plan that delivers a £4,000-per-month retirement income, even if mechanically generated from drawdown plus state pension plus a small annuity, feels different from a plan that delivers please withdraw what you need from this pot. Both might generate the same number. They will produce different lives.

 IN THE ROOM

I have started using the phrase “retirement salary” in client meetings, deliberately. The connotations are different. A salary is something you spend. It is what you've earned, what you're entitled to, what you use to live.

Reframing the monthly transfer from the portfolio as the client's salary, rather than as a withdrawal, does meaningful work on the permission problem. The mathematics is identical. The behaviour is not.

Behavioural drag, and the behavioural return

Most planners can explain sequence-of-returns risk in their sleep. A bad year early in retirement does disproportionate damage to long-term sustainability, because the portfolio that has to recover is also the portfolio being drawn from. The mathematical case is airtight. The industry response, cash buffers, dynamic withdrawal rules, total-return strategies, is reasonable and well-trodden.

But sequence-of-returns risk is not the only risk volatility introduces. There is a second risk, less mathematically obvious, that I would argue is doing more damage to actual retirement outcomes than sequence-of-returns risk ever did. I call it behavioural drag.

What behavioural drag is

Behavioural drag is the cost to the client's life, not to the client's portfolio, of watching their balance fall and responding by spending less. It is the cancelled trip. The deferred gift. The car that was not bought. The year of holding the breath while the markets do whatever they are doing, after which the year is over and the experience didn't happen.

The mathematics of the plan typically survives behavioural drag perfectly. The portfolio recovers. The withdrawal rate stays sustainable. The probability-of-success number barely twitches. But the year of the client's life that should have been lived was not lived. The plan, on its own measure, succeeded. The life it was supposed to support quietly took a hit. This

cost is invisible in retrospect because nothing went wrong on the spreadsheet.

The behavioural return

If behavioural drag is the cost a plan pays when a client's nerve fails, then the behavioural return is the gain a plan earns when its structure holds that nerve steady. The two are mirror images, and naming the second one matters, because it is the part of the value of advice that never makes it onto a factsheet.

The behavioural return is the trip that still gets taken when the market is down 15%. It is the gift still given, the project still started, the year still lived, because the plan was built so the client could keep going through a frightening market rather than freezing in front of it. Some people call it the emotional return. The label matters less than the recognition that it exists, that it is real, and that on the evidence of every study in this paper it is larger than almost any purely financial return we routinely design portfolios around.

The annuity is not bought for its yield; it is bought for its behavioural return. A cash buffer doesn't earn its keep in interest; it earns it in the draw-downs the client slept through. A smoothed holding is not justified on basis points; it is justified on the trips that didn't get cancelled.

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The behavioural return is the one that never shows up on the factsheet. It is measured in trips taken, gifts given, and years lived, not in basis points.

Every adviser I know has had a version of the same conversation, more than once: “The plan was perfect, but the client just wouldn’t execute it.” We say it as though it’s the client’s failure. It rarely is. It is the plan’s failure to anticipate the human being it was built for. The mathematical work was done. The behavioural work was not.

Once you start measuring the behavioural return alongside the financial one, a lot of the standard cost-benefit analysis in our profession turns out to have been answering only half the question.

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Sequence-of-returns risk is a risk to the plan. Behavioural drag is a risk to the life the plan was supposed to fund. Most strategies manage one. The good ones manage both.

Why it matters more than we admit

Three things make behavioural drag a bigger problem now. First, retirements are longer. A 30-year retirement contains a great many downturns, and if the client retreats into defensive mode for every one, large parts of the retirement get lost to fear. Second, market information has never been more accessible. The client can check their portfolio multiple times a day, and mostly does. Every check is a fresh opportunity for the bias to fire. Third, the cohort retiring now grew up with defined-benefit pensions in their cultural memory but is retiring with defined-contribution pots. The full weight of investment volatility is being experienced personally for the first time, and recent shocks (2008, 2020 and 2022 all sit inside a typical client's living memory of their own money) have made it vivid.

How a strategy addresses behavioural drag

There are essentially two approaches, and the strongest plans use both. The first is structural separation: build the plan so the client can see, clearly, that short-term spending is not exposed to short-term volatility. Two years of cash. A guaranteed-income floor. A ring-fenced spending bucket for the next big trip. When the market falls, the client can look at the structure and say: nothing I'm planning to spend in the next three

years is in that volatile pot. The visibility of separation does most of the behavioural work.

The second is volatility reduction itself. Smoothed-return strategies, the broad category of solutions that participate in market returns but use mechanisms to dampen the client's day-to-day experience of volatility, are designed precisely for this problem. Their primary contribution is not financial. It is behavioural. They reduce the number of moments at which the client's nervous system fires, and keep the plan in motion through periods that would otherwise stop it.

This is the behavioural return in its purest form. A smoothed holding may give up a little on paper, but what it buys back is a client who stays the course. The trip still taken, the gift still given, the plan still in motion when a more volatile portfolio would have frightened them into stopping. Measured only on the factsheet, the strategy can look like a compromise. Measured on the life it lets the client keep living, it is often the best-value holding in the plan.

In other words, the case for smoothed return solutions is not really about whether they outperform a standard portfolio in any given decade. It is about whether they keep your client invested, spending and living through that decade. The best long-term return matters very little if it is delivered to a client who has already capitulated.

IN THE ROOM

I have stopped framing investment volatility as a financial concept and started framing it as a behavioural one. “How will you feel if this falls 20%?” is a more useful diagnostic than any risk-tolerance score. If the honest answer is “I’d cancel things,” then the portfolio is, by definition, the wrong portfolio, regardless of what the maths says.

A retirement income strategy must be one the client can actually live inside, on a Tuesday in October when something has gone wrong in the world.

The toolkit, not the tool

For most of my career, the UK retirement income conversation has been a binary one. Annuity or drawdown. Guarantee or growth. Certainty or flexibility. Clients are still routinely asked to pick a side, often within weeks of retirement, frequently for the rest of their lives, almost always on the basis of market conditions in the week the decision is made. The framing was never quite right. It is, increasingly, indefensible.

Wade Pfau's framing of retirement income as a spectrum, safety-first at one end, probability-based at the other, most clients best served somewhere between, is the closest thing the literature has to a settled view. But even that treats the question as a single allocation decision. The more honest answer is that retirement income is not one decision at all. It is a portfolio of allocations, each one matched to a job that needs doing.

My contention is straightforward. No single retirement income tool, used in isolation, can do everything the client needs. The best plans assemble a toolkit, deploy each tool where it does its best work, and combine the results into something that addresses the whole situation.

1 · Guaranteed income. Annuities (lifetime and fixed-term), defined-benefit pensions, the State Pension. Its job is to underwrite the floor and remove the fear of outliving income.

2 · Flexible drawdown. The growth-oriented, fully accessible part of the plan. Its job is to fund the variable shape of a real retirement and to capture long-term growth.

3 · Smoothed return solutions. Approaches that participate in market returns while dampening the client's experience of volatility. Their job is behavioural: to keep the client invested and spending through the wobbles.

Around those three sit two supporting players that appear throughout this paper: cash, for the very short term, and the structure (buckets and guardrails) that tells you how the three tools work together.

FROM A BINARY TO A SPECTRUM

Stop asking the client to pick a side

THE OLD QUESTION

~~Annuity~~

OR

~~Drawdown~~

◀ CERTAINTY · SAFETY-FIRST

GROWTH · PROBABILITY-BASED ▶

Guaranteed income

Underwrites the floor.
Removes the fear of
outliving income.

Smoothed return

Keeps them invested
through the wobbles.

Flexible drawdown

Funds the variable
shape of life.

Structure — buckets + guardrails hold the three together, with cash for the very short term

Stop asking which side. Start asking which job each pound of their money is best suited to do.

Not one decision. A portfolio of allocations, each matched to a job.

The role of guaranteed income

Guaranteed income, annuities, defined-benefit pensions, the State Pension, any source of contracted lifetime payment, does something no other retirement income tool can do. It permanently removes the fear of outliving a portion of the client's income. Permanently. Removes. Not reduces. Removes.

Given everything we have established about the role of fear, this is a much bigger contribution than the standard cost-benefit analysis of annuitisation tends to credit. The standard analysis weighs annuity returns against drawdown returns and concludes, often correctly, that drawdown wins on expected value. The standard analysis is missing the point. The annuity is not bought for its return. It is bought for its behavioural return. People with a foundational level of guaranteed income spend about twice as much during retirement as people without it. That is the return on the annuity, properly measured. Not the yield. The life it allows.

What it does well

Covers the floor. The right tool for non-negotiable essentials: mortgage, bills, food, basics. If the floor is covered for life, every other decision is downstream of a fundamentally different psychological starting point.

Solves longevity risk inside its scope. Within the portion it covers, the client cannot outlive it. Definitionally.

Provides behavioural insulation. It is not market-linked. It does not produce anxiety when markets fall. It is the most behaviourally robust money in the plan.

Generates spending permission. The income-versus-capital effect means the same money, framed as income rather than a withdrawal from capital, gets used differently.

Where it struggles

Guaranteed income typically sacrifices flexibility. Most lifetime solutions cannot be adjusted once set up. The capital used to generate them is no longer available for legacy or for changes of plan. Inflation linkage, where it exists, comes at a meaningful cost to the starting income. And the rate environment at the moment of purchase has an outsized influence on the lifetime outcome.

The pragmatic response is not to dismiss guaranteed income, the behavioural case is too strong, but to use it surgically. Annuitise enough to create a meaningful floor; no more. Time partial annuitisation across a few points if rates and circumstances allow.

Fixed-term guarantees and the bridge

Not all guaranteed income has to be for life. Fixed-term and temporary annuities solve a more specific problem, and it comes up in more and more of my conversations: the gap between stopping work and the State Pension starting. A client who retires at 60 has seven years before the State Pension arrives at 67. Those are Go-Go years, the most valuable in the plan. A fixed-term annuity can bridge that gap, delivering a known, contracted income for a defined period, often as short as three to five years, after which the capital question reopens. In effect, it lets the client buy themselves a private State Pension for the years before the real one starts.

The behavioural value is subtle. A fixed-term guarantee lets a client stay in a drawdown environment, keeping the bulk of their capital invested and their optionality intact, while still receiving something that feels like income rather than a withdrawal. It threads the income-versus-capital needle directly.

This is also the cleanest answer to a question I am asked often: what is the role of a guarantee underneath flexible drawdown? They are not alternatives. The guarantee covers a defined period or need, the bridge to State Pension age, the extra income the Go-Go years require, and the drawdown does everything else. The client experiences a single, coherent income, while the engineering underneath quietly does two different jobs.

The conversation to have

The question is not annuity or drawdown. The question is how much of this client's essential spending should be underwritten for life, how much should be underwritten for a defined period, and how should we deliver that? Framed that way, the conversation stops being binary. Most clients don't want all their income guaranteed. They just need the right amount guaranteed, for the right length of time, sitting underneath everything else.

The role of flexible drawdown

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Flexible drawdown does what guaranteed income cannot. It gives the client adaptability, access to their capital, the potential for growth, and full control over the timing, amount and purpose of withdrawals. A retirement income strategy without a substantial drawdown element is a strategy that cannot respond to life as it actually happens.

What it does well

Funds the variable shape of a real retirement. The Go-Go years cannot be funded with rigid income alone. The trips, the projects, the gifts, the once-in-a-lifetime moments need a flexible source of capital.

Captures growth across a long horizon. Over thirty or forty years, equity exposure remains the most reliable defence against inflation, and drawdown is the structural form most likely to capture it.

Preserves optionality. Capital remains the client's, available for legacy, for late-life flexibility, for the unexpected, both good and bad.

Adapts to changing needs. The plan that is right at 65 is rarely the plan that is right at 75. Drawdown is the part of the toolkit that flexes with life.

Where it struggles

Drawdown is, on its own, behaviourally fragile. It exposes the client to sequence-of-returns risk, to volatility, and to the full force of behavioural drag every time markets wobble. Bill Bengen's 4% rule was designed to give a safe withdrawal rate that would survive even the worst historical sequences, but the rule, on its own, says nothing about whether the client will have the nerve to keep withdrawing during a 1973, a 2008 or a 2022.

The maths assumes a behaviour the typical client does not actually display.

Without good structural design, cash buffers, guardrail rules, bucketing, and ideally some volatility-smoothing, drawdown asks more of the client behaviourally than most clients can deliver. A drawdown plan, on its own, is not a retirement income strategy. It is a component, and the most behaviourally vulnerable one.

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The 4% rule tells you the maximum a client could safely have withdrawn, in the worst sequence in modern history, while remaining invested throughout. It does not tell you whether they would have stayed invested. That is a different question, with a much harder answer.

The conversation to have

Drawdown is best thought of as the engine that powers the variable, discretionary, phase-sensitive part of the client's life. It is where the trips, the projects and the gifts get funded from. Designed properly, it is also where

most of the legacy eventually comes from. But it should not be carrying the weight of essentials, and it should not be the only source of income in the plan. The client's willingness to keep using it depends heavily on what is around it.

The role of smoothed return solutions



This is the category of tool whose role is most under-appreciated in current practice, and the one whose contribution to a well-built plan is the most behaviourally significant. Smoothed return solutions, approaches that participate in market returns but dampen the client's day-to-day experience of volatility, typically through some form of actuarially managed unit-pricing or reserve mechanism, sit between fully guaranteed income and fully volatile drawdown. They give planners a middle option that many clients can hold for the long term in a way that pure drawdown does not allow.

It is tempting to evaluate these solutions on return characteristics alone. That misses the point in the same way the standard analysis of annuities does. The primary value is not financial. It is behavioural. This is the clearest example in the whole toolkit of an instrument bought for its behavioural return rather than its headline yield.

What they do well

Reduce behavioural drag directly. A steadier client experience means fewer moments at which the nervous system fires, fewer cancelled trips,

deferred decisions, and lost years.

Provide a behavioural bridge. Sitting between guaranteed income and pure drawdown, they let planners construct a continuum rather than a cliff edge. Clients who cannot tolerate the full volatility of standard equity exposure but who do not want to give up growth potential entirely now have a place to be.

Keep growth-oriented capital invested. The single largest cost of pure drawdown is not the volatility itself; it is the capitulation the volatility provokes. A smoothed approach reduces the probability of capitulation. That alone, compounded across a 30-year retirement, has real financial consequences.

Support clients who want to spend without checking. The clients most able to enjoy their wealth are the ones who don't feel obliged to monitor their portfolios constantly.

The risk budget

Here is the argument I think matters most, and the one most often missed. Every client has a finite tolerance for volatility, a risk budget, and the job of a good plan is to spend that budget where it buys the most. Anchoring the early, fear-heavy years with the steady stuff, guaranteed income, a smoothed holding, low-volatility assets, and cash, frees that budget up. Once the client can see that the next few years are not exposed to the full swing of the market, the rest of the portfolio is allowed to work harder. The growth allocation can carry more equity, not less, because the smoothed and guaranteed layers underneath are absorbing the behavioural shock.

This matters more in a higher-for-longer inflation world than it did in the decade of cheap money behind us. Inflation is the quiet thief of a long retirement, and the only reliable defence over thirty or forty years is real growth, which means equities, which means volatility. The smoothed and guaranteed layers are what make a genuinely growth-oriented allocation behaviourally viable. They don't compete with the growth. They are part of what permits it.

“I just tell my clients not to look”

Some advisers, when I raise smoothing, tell me the best volatility dampener is free: just coach the client not to look. There is something in it,

the clients who cope best with volatility genuinely are the ones who check least. But I think it is mostly bravado, and slightly dangerous bravado at that. Almost every client looks, and looks often, and looks hardest exactly when the news is worst, which is the worst possible moment to be looking.

Coaching matters, and the best planners do a great deal of it. But coaching works far better when the structure is doing some of the work too. Telling a frightened human not to look at the thing they are frightened about is not a strategy. It is a hope. Building a structure that means it matters less when they do look, that is a strategy.

A note on expected growth

One practical point, because it speaks to adviser confidence as much as client confidence. Smoothed approaches typically run on an explicit, published assumption about expected growth, a stated rate the strategy is managed towards. Used well, that transparency is a planning asset in its own right. It gives adviser and client a clear, agreed anchor for what the plan expects the money to do, which makes the cashflow conversation more honest and the client's confidence more durable. The number is an assumption, not a promise, and it should always be framed that way. But a plan built on a stated expectation is easier to hold your nerve inside than one built on hope.

Where they fit: two jobs, one dial

SIZING THE HOLDING

The same tool, two different jobs

NEARER THE SPEND · LIFESTYLE

Reduce short-term volatility

Steadies the money that is about to be spent, so the next few years don't lurch with the market.

LONG HORIZON · LONGEVITY

Grow above inflation

Keeps the client invested in real growth through the wobbles that would shake them out.

The weight of the holding is set by the risk profile of the client's plan — a dial, not a switch.

The ideal use case is not replace the drawdown portfolio. It is to give smoothing a defined role, or rather two roles, inside the structure. A smoothed holding can sit nearer the front of the plan, where its job is to take the edge off short-term volatility, and it can sit in the long-term growth engine, where its job is to keep the client invested in real, above-inflation growth through the wobbles.

How much sits where should be a function of one thing: the risk profile of the client's plan. A more cautious plan leans on smoothing more heavily. A more adventurous one uses it as a lighter stabiliser around a larger pure-equity core. The category is flexible enough to serve both, which is exactly why it deserves more than the footnote it usually gets.

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The value of a smoothed return solution is not measured in basis points. It is measured in whether your client still takes the trip when the market is down 15%.

IN THE ROOM

I introduce smoothing the same way I introduce every other tool: by its job, not its name. I don't lead with how the mechanism works, because most clients don't care and the ones who do can be walked through it later. I lead with what it is for.

“This part of your money is built to grow, but to grow more gently than the rest, so that when markets get ugly you're less likely to do something you'll regret.” That sentence does more work than any factsheet. The client remembers the job. They rarely remember the mechanism, and they almost never need to.

”

Running the Plan

Building the toolkit is half the job. The other half is running it well: the structure that tells you where the money sits, and the rules that tell you how much a client can take, and when that should change.

Putting them together

If each of those three tools has a job it does well and a job it does badly, then the construction principle for a retirement income strategy almost writes itself. Match the tool to the job. Cover essentials with guaranteed income, because the essentials are non-negotiable and the floor needs to be unconditional. Fund the variable shape of life with flexible drawdown, because life is variable and rigidity will not survive contact with reality. Steady the experience of the growth allocation with smoothed return solutions, because the long-term return only accrues to clients who can stay invested for the long term. Cushion the short term with cash, because no decision about next month should ever depend on what the market did this morning.

A worked construction

Take a notional couple, both 60, healthy, £1.2m of liquid assets, two full State Pensions due at 67, target spending of £75,000 per year, and the desire to leave something to children but not at the cost of living well now.

State Pensions form the backbone of the guaranteed-income floor from age 67, covering a substantial portion of essentials. To bridge the seven years to State Pension age, a fixed-term annuity can carry the contracted income the State Pension will later provide, so the Go-Go years are funded without nervously raiding capital. A modest lifetime annuity, pur-

chased perhaps in stages either side of state-pension age, lifts the permanent floor to cover essentials in full.

The remainder sits inside a three-bucket time-segmented structure: a Liquidity bucket of around two years of income in cash; a Lifestyle bucket of roughly five years of forward income in lower-volatility investments, with a smoothed component reducing its short-term volatility; and a Longevity bucket containing the long-term growth allocation, where a risk-profiled portion of the smoothed holding does its growth job, helping the client stay ahead of inflation while keeping the ride tolerable.

The shape of the income is allowed to vary, higher in the Go-Go years, lighter in the Go-Slow years, with a defined provision for the No-Go years. Withdrawals are managed dynamically using the guardrail rules in the next section.

Why this design works

It is doing four things at once. It is financially sound, because each piece of capital is working in the role it is best suited to. It is behaviourally robust, because the lived experience is steadier than with any single tool. It is psychologically freeing, because the fear that blocks spending has been structurally addressed rather than argumentatively dismissed. And it is properly adaptive, because the components flex differently in response to different conditions, so the plan does not require any single thing to go right.

IN THE ROOM

When I walk a client through a structure like this, I do it in role language rather than product language. “Here is the part of your money whose job is to keep the lights on. Here is the part whose job is to fund the trips. Here is the part whose job is to stay invested without scaring you on the way through. Here is the part whose job is to be available tomorrow.”

Clients remember roles. They follow plans built around roles. Six months later they can still tell me what each piece is for. They cannot, generally, remember the names of the funds.

Risk-based guardrails

Building the right toolkit is half the job. The other half is running it well. A static plan does not survive a dynamic life. Any retirement income strategy that is set up once and left alone will, within a few years, be out of alignment with the reality it was designed for.

Michael Kitces and Jonathan Guyton are the names most associated with the guardrail approach. The original Guyton-Klinger framework set thresholds on the withdrawal rate itself: cross one, adjust spending.

Useful, but coarse. Risk-based guardrails go further. Instead of monitoring a single input, they monitor the composite output, the probability of the plan sustaining the client's target income across the remaining horizon, and use that probability as the trigger for adjustment. Every variable that affects sustainability gets rolled into the measure: portfolio value, asset allocation, actual spending, longevity assumptions, expected future income, tax. Everything.

How the rules work

The starting point. Begin with a withdrawal level at which the plan has, say, an 80% probability of sustaining target income to the end of the horizon. The 20% on the other side represents the chance an adjustment will be needed at some point, not the chance of failure.

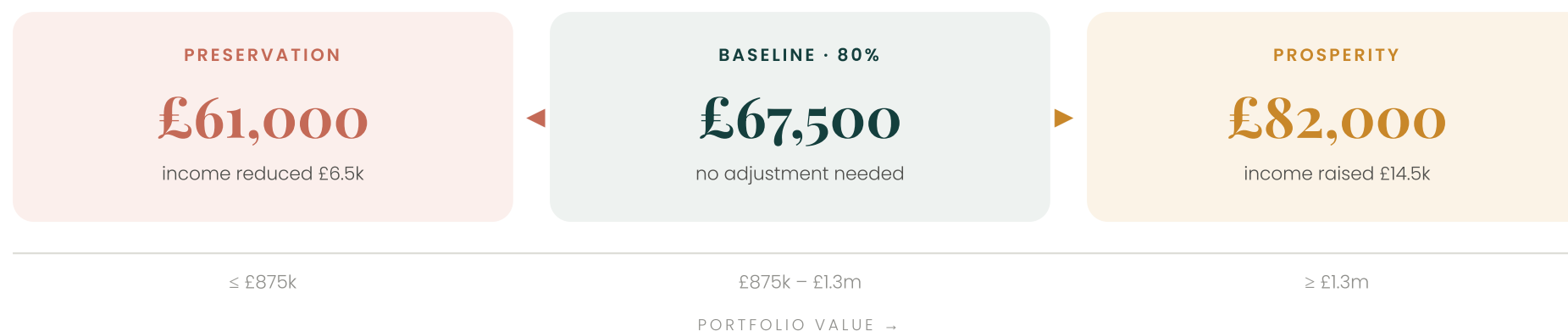
The prosperity rule · upper guardrail. If probability rises to 100% through strong markets or lower spending, withdrawals can be increased to bring probability back into the target range. The client gets a pay rise, structurally, when the plan can support one.

The preservation rule · lower guardrail. If probability falls to 60% through weak markets or higher spending, withdrawals are reduced to bring probability back to the baseline. The client takes a temporary cut.

A worked example

Consider a 60-year-old couple with a £1m pension in a 70% equity / 30% bond portfolio, two full State Pensions at 67, an inflation-linked spending assumption, and a 40-year horizon, stress-tested across 816 scenarios drawn from 109 years of historical data. At the 80% baseline, the sustainable withdrawal is roughly £67,500 per year.

HOW THE GUARDRAILS MOVE THE INCOME



£1m starting portfolio, 70/30, 40-year horizon, 816 historical scenarios. After Kitces & Guyton-Klinger.

Critically, when a preservation adjustment is triggered, it does not have to mean the client reduces their actual spending immediately. What it means is that withdrawals *from the investment portfolio* are reduced. Day-to-day spending continues to be drawn from the cash in the Liquidity bucket until conditions recover. The client's life carries on. The plan recalibrates underneath it.

Why this matters in practice

The guardrail approach gives the client explicit, structural permission to spend more when circumstances allow. That permission is transformational. Most frameworks assume spending can only ever be held steady or reduced. Risk-based guardrails build pay rises into the plan.

This is the antidote to the 84% statistic from earlier, the finding that the great majority of retirees die with more than they had at retirement. Clients who die with substantially more are mostly clients whose plans had no upside rule. A prosperity rule actively works against over-frugality. It tells the client, with the authority of the framework rather than my pleading, that this year they have permission to take more.

“Risk-based guardrails let you adapt the plan to changing circumstances, balancing the security of knowing the client won't outlive their money with the freedom for them to enjoy it while time and health are on their side.”

— IN THE ROOM



The most useful framing of guardrails I have found is to set the rules with the client up front, in writing, as part of the plan. “If your portfolio reaches X, we increase withdrawals to Y. If it falls to A, we reduce withdrawals to B. Until either of those happens, we don't change anything.”

When the moment comes, the conversation is “we've hit the rule we agreed three years ago,” not “I have some news.” That difference in framing is the difference between an adjustment the client accepts calmly and one they resist. The pre-agreement is doing the behavioural work.

The three time-segmented buckets

If guardrails tell you how much to draw, the bucketing framework tells you where to draw it from. The two work together. Neither, on its own, does the whole job. I have refined how I use bucketing over the last few years. Earlier versions had four buckets, which always struck me as one too many. The version I now use is a three-bucket structure organised explicitly by time. Time is the variable that matters. Time is what determines what risk a particular pound of money can tolerate. So time should be the axis on which the buckets are built.

The necessary disclaimer: strictly argued, a time-segmented approach is mathematically very similar to a properly managed total-return portfolio. The case for buckets is not financial. The case for buckets is that the structure produces a plan the client can see, understand, and follow. A total-return approach assumes the client will rebalance dispassionately when markets move and will not panic when the headline value falls. It is mathematically correct and behaviourally optimistic. Most clients are not the clients the total-return approach assumes.

“

Bucketing assumes the client is human. The total-return approach assumes the client is a robot. Most clients are humans. That is the whole case for the structure.

A £1.2M PLAN, DRAWING £60,000 A YEAR

The three time-segmented buckets

0-2 YEARS
Liquidity

£120k

Two years of income, in cash.
Its job is not to grow.
Its job is to be there.

2-7 YEARS
Lifestyle

£300k

Five years of forward income in
lower-volatility investments, with
a smoothed component.
Refills the cash.

7+ YEARS
Longevity

£780k

The long-term growth engine.
Where volatility lives on purpose,
with a meaningful smoothed
portion.

Longevity → refills → **Lifestyle** → refills → **Liquidity** → income → **the client**

Bucket 1 — Liquidity (0–2 years)

Roughly two years of planned income, held in cash. This bucket funds day-to-day life regardless of what the market is doing. Its job is not to grow. Its job is to be there. The behavioural work it does is enormous and almost entirely invisible from the spreadsheet: a client who can see that the next two years of income is sitting in cash sleeps through drawdowns that would otherwise produce panic. That separation is most of the point of the whole exercise.

Bucket 2 — Lifestyle (2–7 years)

Roughly five years of forward income, held in lower-volatility investments. It has two jobs: to provide a buffer between the cash and the growth bucket, and to act as the refill mechanism for the Liquidity bucket. This is the bucket that does most of the practical work on behavioural drag, and one of the two natural homes for a smoothed return solution. Here, the job of a smoothed holding is narrow and specific: to take the edge off short-term volatility so that the money funding the next handful of years behaves the way the client needs it to behave, steadily. When the headline portfolio is down 20%, the Lifestyle bucket is typically down by less, and a smoothed component dampens that further still. The client can

see that the money funding their next five years is still mostly intact. That visibility is the difference between a client who stays the course and one who capitulates.

Bucket 3 — Longevity (7+ years)

The long-term growth engine. The portion that stays invested to do the heavy lifting over a multi-decade horizon: inflation protection, legacy provision, late-life flexibility. This is where volatility exists on purpose, because nothing the client is planning to spend in the near future is in it. Here a smoothed holding does a different job from the one it does in Lifestyle. Not to keep things calm for a spend in three years, but to keep the client invested in real, above-inflation growth through the wobbles that would otherwise shake them out. And because that smoothed element helps define the lived experience of the bucket, the rest of it can often hold a higher exposure to growth assets than it otherwise could. The volatility is occurring on a piece of the portfolio that has time to recover, and time, in markets, is the single most reliable defence we have.

So smoothing earns a place in both buckets, doing two different jobs.

How heavily it features in each should be a function of one thing: the risk profile of the client's plan.

How the buckets flow

The mechanics are deliberately simple, and the simplicity is part of what makes them survive contact with reality. Income is drawn each month from Liquidity. Lifestyle refills Liquidity as it depletes. Longevity, in turn, feeds Lifestyle, but only when conditions are right.

The when conditions are right is the part that matters. We review annually and answer a single question: have long-term growth assets had a normal year, or a sharply negative one? If normal, we top up the shorter-term buckets as planned, harvesting the gains where they are available. If sharply negative, down 15% or more, we pause the flow from Longevity into Lifestyle. We let the long-term assets recover. The client's income continues because Liquidity is full and Lifestyle is doing its buffer job. Nothing in the long-term allocation is being sold at a low price. Nothing about the client's day-to-day life changes.

This is how time-segmented bucketing addresses sequence-of-returns risk in practice rather than in theory. It is not a clever piece of mathematics. It is a discipline, a rule, agreed in advance, that tells you what to do when conditions are difficult, so the difficult moment doesn't have to involve a difficult decision.

The shift in the client conversation

There is a question I hear in almost every discovery meeting, in different forms but fundamentally the same: *Can I afford this?* The trip, the gift, the

kitchen, the helping hand to the children. A well-built bucket plan dissolves that question over time. The structure makes the answer visible. The client can see the Liquidity bucket. They can see the Lifestyle bucket. They know what each is for. The question they were asking gets quietly replaced by a much better one: *Is this worth it to me?*

That is the question I want clients to be asking. The first is about scarcity. The second is about meaning. Most of the work I do in the spending phase is, in some form, helping clients migrate from the first question to the second.

Why this works alongside guardrails

Buckets give you the structure. Guardrails give you the dynamics. The buckets answer where the money is and what each piece is for. The guardrails answer how much the client can sustainably take, and when that number should change. The buckets are mostly behavioural. The guardrails are mostly mathematical. They are the two halves of a properly run retirement income strategy, and any plan that uses one without the other is missing half the work.

Money should let your client sleep well at night and have fun during the day. Buckets and guardrails, properly designed and explained, are how you engineer that outcome rather than hoping for it.

 IN THE ROOM

When I moved from a four-bucket structure to three, I expected the simplification to be received as a tidying-up exercise. It hasn't been. It has been received, in nearly every case, as a clarification.

Three is the number a client can hold in their head between meetings. Three is the number that fits on a single sheet of paper without crowding. Three buckets, time-stamped clearly, 0–2, 2–7, 7+, gives the client a structure they can describe back to me unprompted. The moment a client can describe their own plan unprompted is the moment the plan starts working.

Putting it into practice

Everything so far has been principle and structure. This is the part where it becomes a process you can actually run on a Tuesday afternoon. None of it is complicated. All of it is deliberate.

A five-step way to run the spending-phase conversation

01 Surface the fears before the figures.

Start by naming the five fears out loud and asking which ones the client recognises. You learn more here than in any fact-find. The plan you design afterwards is shaped by what you hear.

03 Build the structure in front of them.

Set up the three buckets and the guardrail rules together, in writing, while they watch. Agree the prosperity and preservation rules now, before either is ever triggered.

05 Review against the life, not just the portfolio.

At each annual review, ask what the client actually did with their money and their year, not only what the portfolio returned. The plan is a living thing or it is nothing.

02 Map the wealth to its jobs, not to products.

Walk the client through the toolkit in role language. The client should leave able to describe what each part of their money is for.

04 Give explicit permission to spend.

Most clients are waiting for it, especially the wealthy ones. Use the prosperity rule, the Go-Go years, and the memory dividend to make the permission structural rather than personal.

The future-self visualisation

One of the most useful exercises I run sits between the numbers and the meaning. I ask the client to picture themselves clearly at three points in the future: a year from now, ten years from now, and right at the end. Not in financial terms. In human terms. Where are they, who is with them, what does a good day look like, and what would they regret not having done?

The reason this works is that the human brain is strikingly bad at feeling connected to its own future self. Research in behavioural science has shown, repeatedly, that we treat our future self almost like a stranger, which is precisely why we under-save when we are young and, just as damagingly, under-live when we are old. The future-self visualisation closes that gap. It makes the person the plan is for feel real to the person sitting in the room. Once a client can see the version of themselves the

plan is meant to serve, the spending decisions get easier, because they are no longer abstract.

The work to do before the meeting

A surprising amount of the quality of a spending-phase meeting is decided before anyone sits down. I now send clients a short piece of reflection ahead of the important conversations, a handful of questions they would never think to ask themselves unprompted. What does a genuinely good week look like for you now? What did your parents teach you about money, and what of that do you want to keep? What would you do this year if you knew the money was not the constraint?

Clients arrive at the meeting having already done the emotional work, rather than encountering these questions cold across the desk. The conversation starts several layers deeper than it otherwise would. The pre-work is not an administrative nicety. It is part of the planning, and often the most valuable part.

The Point of It All

The wealth was never the point. What the money is actually for, what people regret at the end, and why the hardest part of this job is no longer the maths.

Memory planning and the dividend that compounds

Everything in this paper so far has been in service of a single proposition. The point of the wealth in retirement is not to be preserved. It is to be used. Used to build the second half of a life that is actually worth living, with the people the client loves, in pursuit of the things the client cares about.

That sounds obvious. It is not how most plans get built. Most plans get built around preservation, with use as a side-effect. The default of the spreadsheet is to optimise for the residual balance, with spending as the constraint variable. That is the inverse of how it should work.

Bill Perkins's *Die With Zero* is the book I most often recommend to clients in the spending phase, not because it gets all the maths right (it doesn't, and it doesn't really try to) but because it inverts the default. Spending is the goal, not the constraint. Money is fuel for life, and unspent fuel at the end is money that did not do its job.

The memory dividend

Perkins's most useful contribution is the concept of the memory dividend. Experiences do not just produce joy at the moment they happen. They

produce a stream of returns afterwards, every time they are remembered. The trip with the grandchildren in 2027 is a 2027 experience. It is also a 2028 memory, a 2032 memory, and a 2050 memory. Each recall pays another dividend. The compounding works on the quality of the underlying experience, not on an interest rate.

This has a practical implication planners systematically miss. The returns on experience spending are highest when the client is healthy, energetic and relationally engaged, which is, generally, the Go-Go years. The opportunity cost of under-spending in the Go-Go years is not just a larger residual balance. It is the memory dividends that never got minted. The 2027 trip that didn't happen is not a 2027 loss. It is a thirty-year stream of recalled experience that doesn't exist.

“Recollecting a meaningful holiday, a shared adventure or a family celebration allows clients to feel connected to their loved ones and experience positive emotions again and again. The memory dividend grows with time.”

Brian Portnoy and funded contentment

Brian Portnoy's framing of the goal of personal finance, funded contentment, the ability to underwrite a life that is meaningful to you, is the most useful definition of what we are actually doing in retirement planning that I have encountered. It is not maximising wealth. It is not optimising returns. It is not even quite supporting consumption. It is funding contentment, a much more specific and demanding target.

Portnoy's framing forces a question many plans avoid: what does this person's contentment actually look like, and does the plan we have built fund it? Often the honest answer is that we don't know, because we've been busy modelling cashflow and never got round to the harder question. The harder question should be asked first, and the cashflow built around the answer.

Jordan Grumet on regret

Jordan Grumet, the hospice physician, has written about what people actually regret at the end of life. The list is small and consistent. **People do not regret what they spent. They regret what they didn't do.** The trip they kept deferring. The conversation they kept putting off. The version of themselves they never quite became. The risks they didn't take, the relationships they didn't repair, the time they didn't make.

This is the empirical case for spending. Not made by an economist, not made by a financial planner. Made by someone who sits with people in the last weeks of their lives and listens to what they wish they had done differently. The planning profession should be paying attention. End-of-life regret is the result we are, in a deep sense, optimising against. We just have not, mostly, been honest about it.

— IN THE ROOM



I now ask, in early planning meetings, a version of Jordan Grumet's question. "If you imagine yourself at the very end of your life, what do you want to have done that you'd otherwise regret not doing?" Sometimes the answer comes immediately. More often there's a long silence followed by something the client has clearly never said out loud before. I often send it ahead as pre-meeting work, too, because the answers that arrive after a week of quiet reflection are usually deeper than the ones produced on the spot. Whatever follows that silence is the most important piece of planning data I get all year. The plan exists to fund the answer.

The translator's job

If you have read this far, you already know where this ends. The job of a financial planner in the spending phase is not, primarily, to optimise. The optimisation question is largely solved. The technical answers exist, the software is good, and the methodology is mature. Two reasonably competent planners working independently on the same client situation will arrive at largely the same numbers. The technical contribution is genuine but increasingly commoditised.

The harder job, the one the profession has barely begun to take seriously, is everything that happens around the numbers. It is helping the client see what their wealth was built to do. It is naming the fears and the biases out loud, so they stop operating invisibly. It is designing structures that do behavioural work the client cannot do themselves. It is giving explicit permission to spend, early and often. It is having the uncomfortable conversation about the No-Go years, so the client isn't too frightened of them to enjoy the Go-Go years. It is, fundamentally, translating a balance sheet into a life.

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In accumulation, our job was optimisation. In decumulation, our job is translation. The planner who treats the second job as a continuation of the first will keep handing clients perfectly optimised plans they refuse to follow.

Translation is not soft work. It is not a fluffy addition to the technical core. It *is* the technical core, in the spending phase, because the technical answer in isolation does not translate into a life unless something else does

the translation. That something is the planner. Not the cashflow software. Not the suitability framework. The person across the desk.

Most financial plans model spending, not living. Until that gap closes, we are solving the wrong half of the problem. The skills our profession needs in the spending phase are different from the ones it needed in accumulation. It helps to sort them into three groups, because they are not the same kind of skill and they are not learned in the same way.

THE SPENDING-PHASE SKILLSET

Cognitive · Emotive · Applicable

HOW WE THINK

Cognitive

Framing

The same number, presented differently, changes the decision.

Structuring

Buckets and guardrails that do the behavioural work for them.

HOW WE CONNECT

Emotive

Listening

Not just to what they say, but to what they don't.

Questioning

The harder ones: regret, identity and meaning.

Patience · more than one meeting.

HOW WE TURN IT INTO ACTION

Applicable

Honesty

Pushing back when a stated preference costs them the life they actually want.

Translation

Balance sheet into a life, at every review.

None of these are skills that can be automated. They are also not skills the profession trains for, mostly. The training pipeline is heavily tilted towards technical competence, and the technical competence remains essential. But the binding constraint on planning quality, in the spending phase, has shifted. It is no longer maths. It is the translation.

A short note on what this means for our profession

The cohort retiring now and over the next decade is the largest wealth-holding generation in history. They have, in aggregate, more money than any previous generation. They have less guaranteed income than their parents did. They have longer life expectancies, more complex family structures, more accessible information about their portfolios, and more ways to make small bad decisions in real time.

They also, in many cases, have a planner who is still answering the question they were asking ten years ago. The question of how to save. The question of how to grow. The question of how to optimise the accumulation. Those questions are now mostly settled. The questions that are not settled are the ones this paper has been about: how to spend, how to live, how to translate the wealth into the life it was built to fund.

Which is the heart of the matter, and the reason I am optimistic. As the technical answers commoditise, the value of real advice does not fall. It rises. The work that is hardest to automate, the translation, the permission, the structure that holds a human being steady through a bad year, is exactly the work clients need most and can find in fewest places.

The firms that prosper in the next decade will be the ones that have made this transition explicitly. They have rebuilt their meeting and con-

versation structures around the spending-phase questions. They have invested in the conversational and behavioural skills the work now requires. They have moved beyond the binary product conversations and into the toolkit construction the modern client actually needs. They have started measuring their own success not by AUM growth or the size of their average plan, but by something harder to quantify and much more important: the lives their clients actually got to live.

“The firms that prosper in the next decade will not be the ones that optimise hardest. They will be the ones that translate best. The technical answers are commoditising. The translation is the moat.”

That is the work. It is harder than it used to be, in some ways. It is also, I think, much more interesting. We are no longer just helping people accumulate. We are helping them use what they have built. That is a different vocation, and a more honest one. It is also, when it is done well, the best work in the world.

Good luck with it.



Dan Haylett

HUMANS VS RETIREMENT

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