

Alpha Beta PARTNERS



Talking Decumulation at Alpha Beta Partners

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A tale of two tails



A way of accurately measuring the impact of sequence risk across investment portfolios has recently been developed by academics studying the problems associated with decumulation.

This is critical because income in retirement is a function not only of the expected lifetime portfolio return but also the probability (and the likely extent) of suffering large drawdowns or a bout of severe sequence risk.

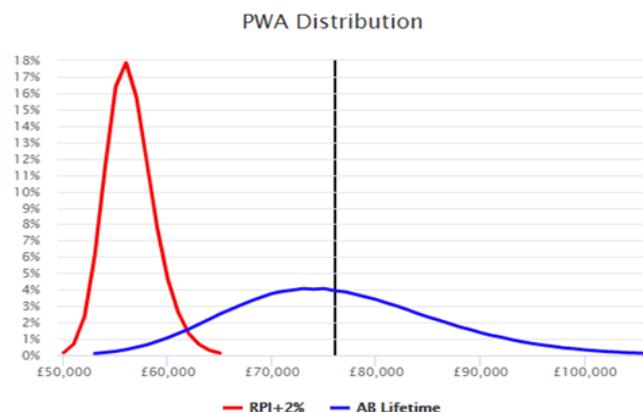
With this new bit of tech, now embedded in the AB Pension Pathway app, income drawdown rates can now be accurately calculated, investment products compared and better decumulation products developed.

The AB Lifetime portfolio is one such new product, specifically designed to mitigate sequence risk in drawdown, by reducing the likelihood of suffering what is known as left tail events or large portfolio losses.

Using this new tech, the search was now on for the gold standard, that product whether replicable or not that maximises sustainable income in retirement income.

What about the Retail Price Index + say 2%? Who would not want to invest in such a product offering lifetime stable returns while out pacing inflation? Intuitively it feels right. Wrong.

Loading the data into the app, and assuming our retiree has £1 million and a 20-year planning horizon, the distribution of Personal Withdrawal Amounts (PWAs) came back as follows:



Both have short left tails, relative to other investment options, but RPI+2% has no right tail!

RPI +2% historically misses those great annual returns that equity markets can deliver from time to time, which help to enhance a pension pot with the result that average annual income from RPI+2% is £55,000 but £75,000 for ABL Lifetime.

The search continues....

Let's talk decumulation together and together with our academic and R&D partners.

Contact us [here](#)

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