Russell Investments conducted three major focus group studies on retirement income: the first two in 2007 and the third in 2009. Mathew Greenwald and Associates led these research projects. This report provides:

- Description of the sources of information for this summary.
- Retiree viewpoints on the production of income.
- Advisor viewpoints on the production of income for retirees.

Editor’s note: All references to investment products offered by Russell Investments have been removed from this summary report.

SOURCES OF INFORMATION

In September 2007, Russell conducted focus groups with financial advisors: two with wealth managers, one with small-account managers and one with money managers. Three groups with retirees were also conducted. The groups were held in Phoenix and San Diego. All the financial advisors had at least three years of experience, at least $10 million of assets under management (AUM), at least 50 percent of their assets from individual investors, at least 25 percent of their retail assets in mutual funds, and at least 15 percent of their business from retirees. The retirees were ages 55 to 70, had investable assets of at least $250,000, and had less than a third of their income from defined benefit plans.

In December 2007, five groups were held with financial advisors: three with wealth managers and two with investment advisors. The advisors had the same requirements as the aforementioned groups. These groups were held in Los Angeles and Seattle.
In 2009, four focus groups were held with retirees and one with prere-
tirees (in Deerfield, Illinois; Minneapolis; Atlanta; and Scottsdale, Arizona). 
Two retiree groups had anxious retirees who were ages 68 to 75, had in-
vestable assets of $400,000 to $1 million, were not regular savers, and were 
scared by the economic developments of that time. The other two groups 
of retirees were premiers who were ages 60 to 67, had investable assets of 
$1 million to $3 million, were regular savers, and did not feel that impacted 
by the economic events of the time. The preretirees were 57 to 59 years old, 
expected to retire within five years and use a financial advisor.

At that same time, seven groups were held with financial advisors (four 
with wealth managers and three with investment advisors). All the advisors 
had at least three years of experience and at least $10 million in AUM. At 
least half of their AUM was from retail clients and at least a quarter of their 
retail assets were in mutual funds. Also, all the advisors had a minimum of 
20 percent retired retail clients and at least 20 percent of those retail clients 
currently withdrawing money from their investments.

The highlights from these three sets of groups will be the basis for this 
summary.

Retiree Viewpoints on the Production of Income

Retirees have two important concerns about their financial security. First, 
there is considerable concern about running out of money. Second, there is 
awareness that there can be large expenses at the older ages because of health 
problems and the possibility of needing long-term care. These concerns lead 
retirees to want to preserve a significant amount of capital. Indeed, many 
retirees try to live mainly off defined benefit income and Social Security. 
Income from real estate is an important source for some. Those that need 
additional income most often seek to at least preserve their asset levels and 
take out only dividends, interest, and capital gains. Some try to increase 
their asset levels to keep up with inflation. This strategy does not take into 
account inflation's impact of reducing the value of the asset levels. When 
equities fall in value, there is a tendency for people to reduce spending.

Importantly, although they are often concerned about running out of 
money, most retirees do not have sophisticated strategies for preserving 
their assets or ideas about how to most efficiently invest. Also, most do not 
consider leaving an estate to be important. They are more concerned about 
ot being a burden on their kids.

Many retirees do not have formal budgets, but most are quite aware of 
their level of monthly expenses and try to live within their means. However, 
there are often events, such as vacations, capital expenditures (for such
Appendix A: Lessons Learned from Retirement Income Research

things as a new car or major home repair) or unexpected costs (such as an adult child losing a job and needing support) that require large outlays.

In the face of these concerns, the retirees appear fairly conservative. They use a range of asset allocations, but many appear to have about half of their assets in fixed investments.

Advisor Viewpoints on the Production of Income for Retirees

The advisors in the focus groups held in 2009 agreed with six statements presented to them about the problems faced by retirees:

1. It can be hard to determine how much regular income is needed in retirement; circumstances can change.
2. No one knows how long they will live in retirement. Investors need confidence that they can pay bills for a potentially long period of time.
3. Health care costs are a major concern of retirees.
4. Defined benefit plans and Social Security do not meet the lifestyle expectations of many retirees.
5. Many retirees find that their nest eggs decline in their later years and can also encounter unexpected costs. They need to protect income and have opportunities to grow.
6. Fixed investments are safe, but often return too little, whereas aggressive equity investing can bring losses. Balance is essential.

The advisors verify a good deal of the observations made by retirees. They report that many of their retired clients try to live on defined benefit income, Social Security, and dividends. Most advisors state that only a small proportion of their clients need a significant amount of regular income from their accumulations. However, most of the advisors expect that the proportion of their retired clients who will need regular income will grow strongly.

When withdrawals are made, most advisors think that the amount taken out each year should be between 4 percent and 6 percent of the assets clients have at the start of retirement. Many say they have gotten more conservative on that point than they were several years ago.

In terms of strategies for providing income, the most commonly used approaches are bond laddering and systematic withdrawal. In a few of the focus groups, the moderator probed reactions to the assertion that asset allocation should be different during the income stage than during the accumulation stage because during the accumulation stage, market downturns are actually beneficial—investors can buy low, but they are quite different
during the income stage, because investors taking income must sell low. There is widespread acceptance of this assertion. However, financial advisors do not seem to have developed asset allocation strategies for those drawing income that reflects those different dynamics. Generally, asset allocations for those drawing income are similar to those for accumulators, except that, with age, there is a tendency for advisors to think that more allocation should be given to fixed investments. That, however, does not seem to be universally implemented.

The advisors report that retired clients require more of their time than working clients. Also, those who take income require more of the advisor’s time, because strategies for taking income tend not to be highly automated. Some produce income each month, when needed, by harvesting capital gains and taking dividends and interest. Some rebalance; others do not. Some use annuities for this purpose. Some take a major amount of money out at the start of the year and put it in cash. They then withdraw from this cash account to produce income. This means that the large sum taken to provide income for the year gains hardly any return.