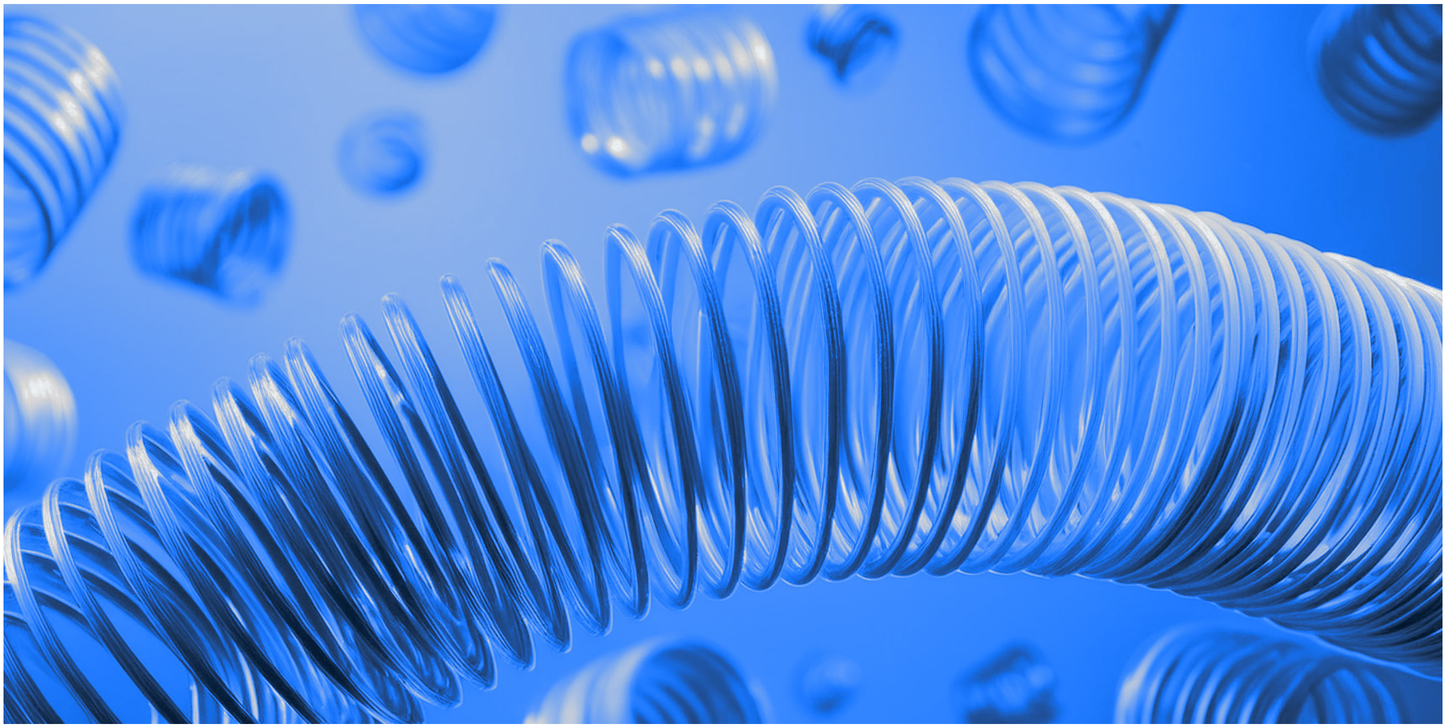
The Slinky Effect on Retirement
Examining the Retirement Investment Paradox



In 1943, naval engineer Richard James created a tension spring to stabilize ship equipment. After accidentally knocking it off his workbench, he observed the spring “walking” and “slinking” downward in a graceful, wavy motion. This unexpected behavior transformed a mundane tension spring into the iconic Slinky toy.

Originally designed for naval purposes, the spring found a new role, delighting generations of children and, if we’re honest, plenty of adults. This invention demonstrates how one creation can fulfill diverse and important functions.

Is Retirement Planning in Need of Its Own Slinky Moment?

Retirement planning has transformed, presenting unprecedented complexities that previous generations rarely encountered. To navigate these new realities, it’s essential to understand the concept of the “Retirement Investment Paradox,” a term coined by Dunham and Associates Investment Council, Inc. to describe the intricate, and often conflicting, factors modern retirees must manage.

Three key factors define the Retirement Investment Paradox:

- **Inflation**
- **Increased Longevity**
- **Sequence Risk**

The challenge lies in balancing these factors. For instance, the same assets that could protect against inflation and support long-term growth can also expose you to sequence risk. Strategies that aim to minimize sequence risk may not provide the growth needed to combat inflation or support a longer lifespan. This paradox emphasizes the need for innovative and flexible strategies that can adapt to these evolving challenges.

By understanding and addressing the Retirement Investment Paradox, we can work with you to create a plan that secures your financial future throughout retirement.

Think of Retirement Planning as Sailing a Ship from San Diego to Hawaii

The goal is to reach Hawaii (a comfortable retirement) with enough supplies (money) to last the journey.

1. **Inflation:** Think of inflation as a constant headwind. It steadily pushes against the ship, making progress harder and requiring more supplies (money) than initially anticipated.
2. **Increased Longevity:** Imagine discovering mid-voyage that Hawaii is farther away than you originally planned. This means you now need to ensure your supplies last for a longer journey.
3. **Sequence Risk:** Picture unpredictable storms during your voyage. If a major storm hits (poor sequence of returns, especially in the first few years of retirement), it can damage the ship and deplete supplies, making the rest of the journey precarious.

Therefore, the Retirement Investment Paradox highlights retirees' conflicting challenges as they battle inflation, increased longevity, and sequence risk.

Inflation

Equities have historically demonstrated a capacity to outpace inflation. Over the last three decades, ending 3/13/2024, inflation eroded the purchasing power of a dollar by more than 50%. This erosion can significantly impact a retiree's financial stability. However, despite enduring four major bear markets during this period, the S&P 500 index achieved a remarkable after-inflation gain of 840.5% total return.

Figure 1: Creative Planning, Charlie Bilello; Y-Charts[2]

Increased Longevity

A 65-year-old retiree may live another 40 years or longer, necessitating growth in their retirement portfolio. Over the last 40 years ending 6/30/2024, the S&P 500, including dividends, has grown at an annual rate of 11.84%, which supports the need for strong growth to sustain longer lives.

Sequence Risk

This is where the Retirement Investment Paradox comes into play. The very asset class that may protect retirees from inflation and provide necessary long-term growth for increased longevity is also the one that could potentially deplete their savings prematurely due to the sequence of returns.

The Paradox with Common Past Strategies

The paradox continues as past strategies used to address sequence risk, like bond ladders, conservative bucket strategies, and annuities, while historically effective, may not provide the modern retiree with the growth needed to combat inflation or support longevity. The Retirement Investment Paradox requires balancing multiple risks. However, traditional approaches often fall short when tackling all three factors: inflation, increased longevity, and sequence risk.

As you plan for retirement, it is crucial to understand the Retirement Investment Paradox. My firm can help you in the planning process for the modern retiree facing this paradox.

By working together, we can develop strategies designed to address these complexities and help you enjoy the retirement you deserve.

Sources:

1. The History of Slinky, by James Springs and Wire Company, n/d (jamesspring.com)
2. Chart of the Day: Inflation vs. Stocks, by Samuel A. Kiburz, April 11, 2024 (crews.bank)
3. Dunham and Bloomberg

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