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Morningstar retirement bootcamp

Webinar 1 – Understanding the maths of retirement

Webinar 2 – Estimating how much you will spend in retirement

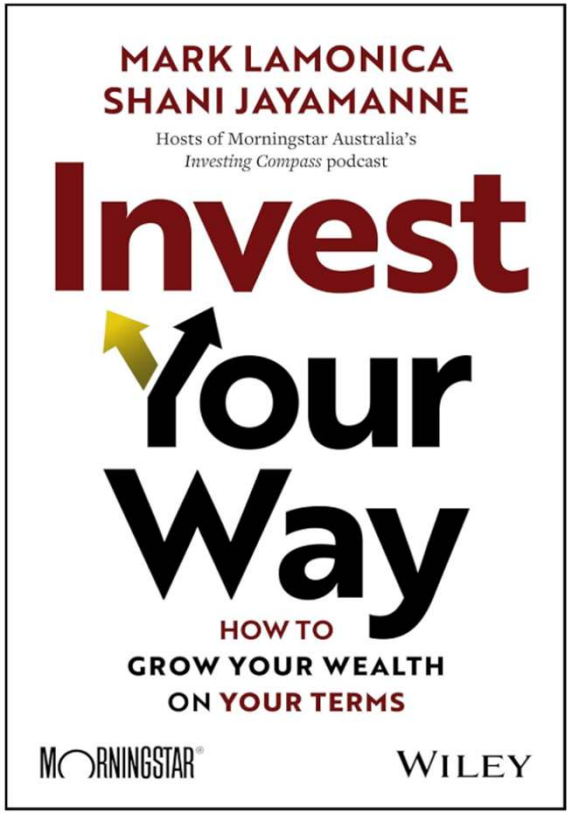
Webinar 3 – How much money you need to retire

Webinar 4 – Figuring out your retirement asset allocation

Learning objectives

Asset allocation determines the long-term returns of portfolios. It determines the volatility of a portfolio and the drawdowns faced by investors in bear markets. Learn about how to set your asset allocation which dictates how a portfolio will respond to the twin risks in retirement - sequencing and longevity risk. .

Getting the foundations right



- The biggest issue many investors face is undermining their own outcomes by letting emotions influence decision making and making mistakes
- ETFs exacerbate these tendencies given the ease of trading, the proliferation of new ETFs and compelling marketing based on recent performance
- The key is adding structure to decision making by establishing goals, setting an investment strategy and developing a process to guide decision making

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Twin retirement risks: Sequencing and longevity risk

Sequencing risk: Sequencing risk refers to how the order – or sequence – of returns impacts how long a portfolio can support your spending in retirement. If you retire into a bear market and need to sell when prices are low to fund spending, you will run out of money faster.

if you retired in the year 2000 with a $1m portfolio and withdrew $40,000 annually you would be left with approximately $330,000 twenty years later if you invested your entire portfolio in the S&P 500.

If you reversed the order of S&P 500 returns over those twenty years you would end up with approximately $1.564m. The average return is the same but the outcomes are very different.

Longevity risks: Outliving your retirement savings is the other key risk faced by retirees. This is longevity risk which becomes more of a challenge as life spans increase.

The simplistic response to sequencing risk is to invest in more defensive assets which will fall less in a bear market. The problem with defensive assets is that they have lower long-term returns.

Those lower returns are a problem because of longevity risk. To avoid outliving your savings means investing in growth assets with higher expected long-term returns.

Asset allocation considerations

There is no right answer for asset allocation, and each retiree will have to decide what the best approach is given personal circumstances. Ultimately this is a trade-off between higher expected returns from more growth assets and less volatility:

- The higher the value of total assets to annual spending (lower withdrawal rate) the more defensive assets can be held in a portfolio
- The higher the flexibility in annual spending the more growth assets can be held in a portfolio
- The shorter the time frame needed the more defensive assets can be held in a portfolio

Asset allocation research

Lifecycle option are based on a concept known as the glidepath - a strategy that gradually adjusts your investment mix as you age. Vanguard's Super Lifecycle options adjusts asset allocation as follows:

- Members aged 47 and under have their super invested in a diversified portfolio with 90% in growth assets and 10% in defensive assets.
- Starting at age 48, the portfolio begins to shift. Each year, on the business day after the member's birthday, the allocation to growth assets is slightly reduced - starting with a move to 87.5% growth and 12.5% defensive assets at age 48.
- By age 82 and beyond, the portfolio settles at 40% growth assets and 60% defensive assets, prioritising stability as you draw an income to fund retirement spending.

The Vanguard Super Lifecycle option changes asset allocation with age

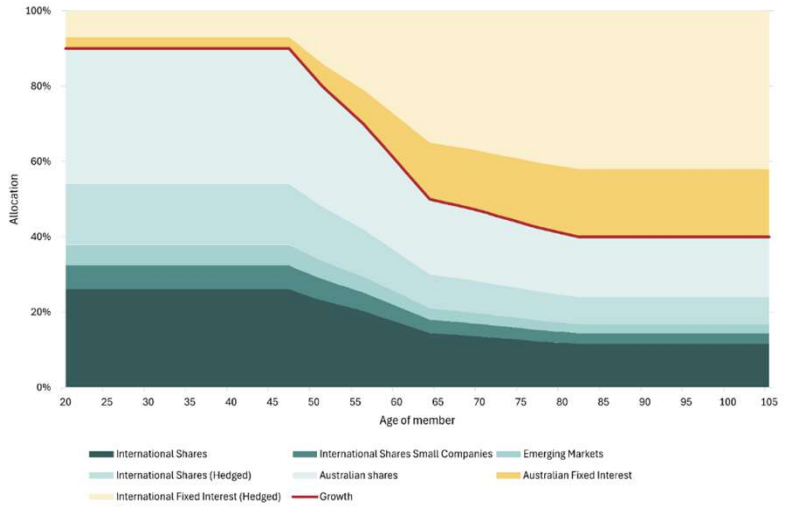


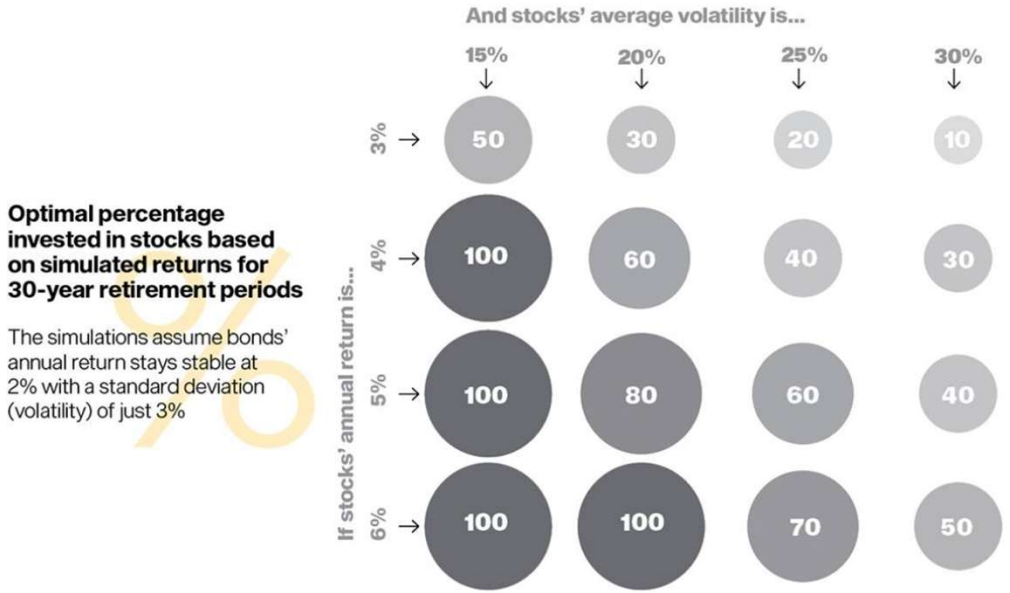
Figure 1: Allocations as at August 2025 and subject to change — see the PDS for current settings.

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Asset allocation research

Research from IESE and Windham capital simulated the optimal share allocation in a portfolio given different levels of returns and volatility. The study pointed to issues with relying on a failure rate instead of the coverage ratio which explores the number of years or retirement supported and the potential surplus based on historic market conditions

Historically share returns in the US averaged 6 percent real returns for the U.S. with 18 percent volatility.



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Bucket strategy

The bucket strategy is an approach intended to mitigate sequencing risk. It was originally proposed by Harold Evensky in 1985.

The intention is to help retirees avoid selling low in a bear market – both by providing a reserve and lowering behavioural risk. However, there is no agreement on how to execute a bucket strategy.

Options include:

1. How many buckets are included? Two? Three? Four?
2. How do you replenish the buckets?
3. What percentage of assets are allocated to each bucket?

Under each version of the bucket strategy there is one key input into success that is difficult to measure – the quality of decision making.

Bucket strategy execution

Rather than fixate on the details of the different bucket approaches it is more worthwhile to focus on the overarching principles:

Principles	Implications
Investment buckets are aligned to when money is needed so longer-term spending is supported by growth assets and shorter-term by defensive assets	• The overall goal and the combined asset allocation is the key focus rather than worrying about each bucket in isolation.
Liquid assets are maintained to support short-term retirement spending so a retiree doesn't have to sell assets in poor market conditions	• A retiree will have to decide when conditions warrant tapping the liquid assets and when it makes sense to sell other assets. • A retiree will also need to determine how quickly to refill the liquid buckets but assets sales can be supplemented by income.
Liquid assets should support spending until markets adequately recover	• A retiree will have to determine how much to hold to account for bear markets with the average bear marketing taking 27 months for recovery but some lasting five years.
How long should a retiree adhere to the bucket strategy	• The first five years of retirement is considered the 'danger zone'. • A retiree will need to navigate minimum drawdown rates for super but can invest outside of super if required.
Behavioural risk is reduced which limits mistakes	• Investors need to clearly understand the use of each bucket and use that structure to inform decision making.