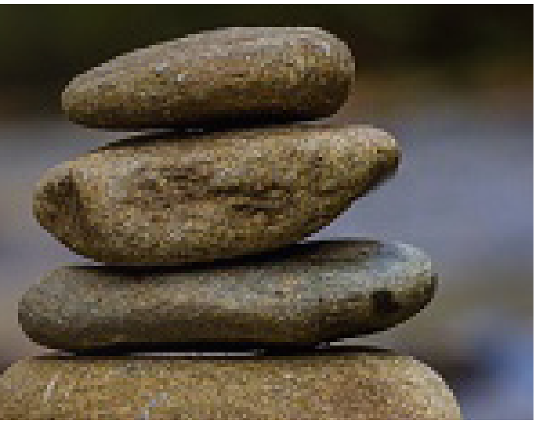
Why Accumulating Wealth Is Only the Half of It

Investment wisdom has long held that if workers invest through their careers they can rest easy in retirement. But what if wealth accumulation is no longer enough?



Think of an average retail investor; when do they start to invest for retirement? If they are diligent, they might start contributing to their 401(k) and investment plans in their mid-20s, but the average American does not start saving for retirement until they are 31.[1]

Retirement means different things for different people. For one investor it might mean travel to far-off places, while another may be satisfied with retiring closer to home. Whatever their tastes, most investors will at some point enter the "decumulation" phase, where growth of their investment portfolio takes a back seat to wealth preservation and a reliable income stream.

ALERTING INVESTORS TO DECUMULATION DANGER

Investing for retirement has two clear stages: an **accumulation** stage and a **decumulation** (or drawdown) stage. Historically, the financial services industry has been mainly geared towards helping investors in the former, with less of a focus on the latter. As such, investors tend to approach both stages with the same underlying philosophy. This is where we think a shift is required.

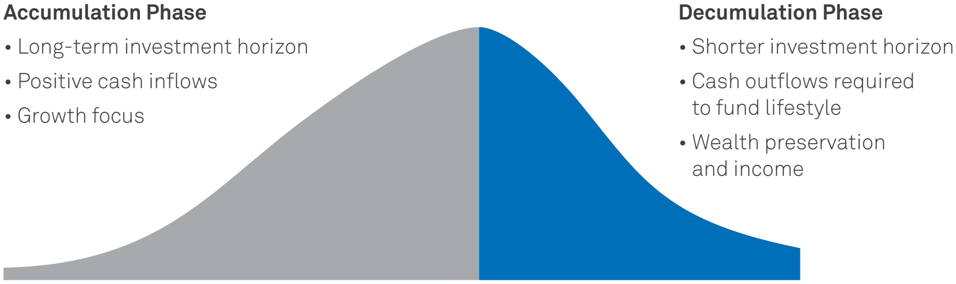
Accumulation Stage

In the early years, investors continuously accumulate assets as they or their companies contribute to pension and/or investment plans through regular or lump-sum investments. The investor's liquidity and cash flow needs are typically low during this stage.

Decumulation Stage

As investors enter retirement, the contributions to their pension and investment plans dwindle or stop altogether and they start to draw down on their accumulated wealth to fund their lifestyle. The investment focus in this phase should therefore shift accordingly. The time horizon for investment returns also shrinks as withdrawing assets in a down market can have serious consequences on an investor's retirement assets.

What's so different between the two?



Accumulation Phase

- Long-term investment horizon
- Positive cash inflows
- Growth focus

Decumulation Phase

- Shorter investment horizon
- Cash outflows required to fund lifestyle
- Wealth preservation and income

It is important to recognize that decumulation is not a "one-day event" but rather a transitional process. For some investors the capital preservation element of their portfolio might eventually become 100% but for others, there may continue to be a growth requirement even during the decumulation phase.

Throughout the investor's life-cycle, the focus shifts from return-seeking, to reducing portfolio volatility/capital losses, managing outflows, and finally, towards maximizing likelihood of achieving target objectives (such as a steady income stream).

WHY IS BNY MELLON INVESTMENT MANAGEMENT POSITIONED FOR THE WHOLE INVESTMENT LIFE-CYCLE?

For over 15 years, Insight Investment — a BNY Mellon Investment Management company — has been a leader in liability-driven investing (LDI) for large pension and insurance plans in the UK. These plans have historically been called upon to provide a set income for their beneficiaries upon retirement using a large pool of assets. LDI, at its core, is an approach that looks to position these assets so they cover all current and future liabilities of the pension plan. This means when the insurance firms or pension plans are called on by policyholders, they have sufficient assets and cashflow to pay out.

[1] Source: Nationwide Retirement Institute, December 2018.

Not FDIC-Insured. Not Bank-Guaranteed. May Lose Value.

In their approach to LDI, Insight's investment teams follow a methodology that seeks to manage the sensitivity of assets to liability risk factors such as interest rates, inflation and longevity. For these plans, largely in the UK, this has served as an approach to help mitigate the risks of their defined benefit plans. Of course, no investment strategy or risk management technique can guarantee returns or eliminate risk in any market environment.

INSIGHT'S LDI HERITAGE

Fixed income is typically at the core of every LDI solution Insight creates for their LDI institutional clients. This is because Insight believes no other asset class is able to provide both the potential stability of cash flow and diversification benefits when combined with other assets. As the largest manager of LDI assets globally ($612bn as of December 31, 2017),[2] Insight has invested heavily in fixed income specialists, with 115 of its 229 investment professionals sitting within the fixed income group.[3]

Insight believes its competitive advantage lies in its skill in incorporating sophisticated and robust risk management techniques in a consistent fashion across all of the portfolios it manages. While mitigating the risks of an entire corporate pension fund requires a different set of assumptions in day-to-day management, the investment toolkit, skills and "solutions-first" mentality does flow into Insight's fixed-income approach.*

[2] *Pensions & Investments'* annual issue of "The Largest Money Managers," May 2018. Insight was ranked the largest manager of LDI assets (based on total worldwide assets as of year-end 2017). Rankings are based on a survey of more than 560 investment management firms that provided information in response to an online survey. In order to qualify for inclusion, the firm must manage assets for U.S. institutional tax-exempt clients. Rankings are not representative of any one client's experience and are not indicative of Insight's future performance.

[3] As of December 31, 2018. Includes employees of Insight North America LLC (INA) and its affiliates, which provide asset management services as part of Insight, the corporate brand for certain companies operated by Insight Investment Management Limited (IIML).

* The specific LDI investment techniques described herein are not applied to any Dreyfus fund products.

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Asset allocation and diversification cannot assure a profit or protect against loss.

Investors should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. To obtain a prospectus, or a summary prospectus, if available, that contains this and other information about a fund, investors should contact their financial advisors or visit dreyfus.com. Investors should be advised to read the prospectus carefully before investing.

RISKS

Bonds are subject to interest rate, credit, liquidity, call and market risks, to varying degrees. Generally, all other factors being equal, bond prices are inversely related to interest-rate changes and rate increases can cause price declines. **High yield bonds** involve increased credit and liquidity risk than higher rated bonds and are considered speculative in terms of the issuer's ability to pay interest and repay principal on a timely basis. The use of **derivatives** involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid, and difficult to value and there is the risk that changes in the value of a derivative held by the portfolio will not correlate with the underlying instruments or the portfolio's other investments.

BNY Mellon Investment Management is one of the world's leading investment management organizations and one of the top U.S. wealth managers, with $1.7 trillion in assets under management as of 12/31/18. It encompasses BNY Mellon's affiliated investment management firms, wealth management services and global distribution companies. More information can be found at www.bnymellon.com.

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