

Providing more freedom to spend

How income protection empowers retirees to enjoy their retirement

Key insights from the white paper “Develop a personalized retirement strategy” by Wade Pfau

Helping those nearing retirement develop a more personalized and protected income strategy requires more than balancing investments and returns. It also involves aligning the strategy to each retiree’s comfort levels and financial priorities.

For many retirees, this may mean going beyond traditional investment-centered strategies to help ensure that they can enter retirement more confidently and better enjoy the rewards of their hard work. In fact, recent research shows that an investment-centered strategy for retirement income resonated with only about 1 out of every 3 retirees. **Two-thirds of individuals preferred investments that deliver higher levels of guaranteed income when seeking to meet essential spending needs in retirement.**

Identify safety-first retirees

Investment-centered retirement strategies often assume that retirees are comfortable staying the course during market volatility. But this approach can alienate retirees who feel uneasy relying on long-term stock market growth to fund their essential expenses.

Identifying retirees who embrace a “safety-first” approach is key. These retirees tend to seek a more stable level of monthly income so they can feel confident that more of their income needs are protected. To learn more about assessing clients’ retirement income preferences, read [“Develop a personalized retirement strategy approach based on client preferences,”](#) by Wade D. Pfau, Ph.D., CFA®, RICP®.

Retirees with higher levels of protected income spend, on average, **twice as much** as those who don’t.¹



Use income protection to help increase feelings of freedom and safety

Income protection strategies leverage the concept of building a retirement paycheck for life that helps a retiree cover their unique amount of essential expenses. Often combined with Social Security retirement benefits or a pension, additional investments using insurance products help boost their income security throughout retirement.

This asset/liability matching approach — tying certain investments or sources of income to specific monthly retirement expenses — allows retirees to spend income from additional nonprotected investments with greater freedom and can be a reassuring option for retirees of the safety-first mindset.

In their article “Guaranteed Income: A License to Spend,” David Blanchett and Michael Finke explain that retirees who hold a higher percentage of their wealth in guaranteed income spend more than retirees whose wealth consists primarily of nonannuitized assets.¹ Knowing that the risks of longer-than-expected life spans or poor market returns are being mitigated by a more secure monthly retirement paycheck, these retirees can feel free to spend any surplus income on what brings them joy.

Building confidence through personalized planning

Income protection isn't just a tool for managing risk. Financial professionals who can profile clients and better recognize those that value these strategies will not only help these protection-seeking clients feel more secure — and better able to fully enjoy their retirement years — but also position themselves as trusted partners in creating more fulfilling retirement experiences.

Lifetime income protections help to:

- ✓ Manage market volatility and investment risks
- ✓ More efficiently earmark assets to cover essential retirement expenses
- ✓ Reduce the fear and worry that many have about outliving their assets in retirement
- ✓ Simplify the financial plan



For more detailed insights, [read Wade Pfau's white paper.](#)



¹ “Guaranteed Income: A License to Spend,” David Blanchett and Michael S. Finke, papers.ssrn.com/sol3/cfm?abstract_id=3875802 (June 28, 2021).

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