

Cambridge University Press
978-1-108-92662-1 — Advances in Retirement Investing
Lionel Martellini , Vincent Milhau
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Cambridge Elements

Elements in Quantitative Finance
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ADVANCES IN RETIREMENT INVESTING

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UNIVERSITY PRESS

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CAMBRIDGE UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom

One Liberty Plaza, 20th Floor, New York, NY 10006, USA

477 Williamstown Road, Port Melbourne, VIC 3207, Australia

314–321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre,
New Delhi – 110025, India

79 Anson Road, #06–04/06, Singapore 079906

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www.cambridge.org

Information on this title: www.cambridge.org/9781108926621

DOI: 10.1017/9781108917377

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First published 2020

A catalogue record for this publication is available from the British Library.

ISBN 978-1-108-92662-1 Paperback

ISSN 2631-8571 (online)

ISSN 2631-8563 (print)

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Advances in Retirement Investing

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First published online: August 2020

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Abstract: To supplement replacement income provided by Social Security and employer-sponsored pension plans, individuals need to rely on their own saving and investment choices during accumulation. Once retired, they must also decide at which rate to spend their savings, with the usual dilemma between present and future consumption in mind. This Element explains how financial engineering and risk management techniques can help individuals make these complex decisions. First, it introduces “retirement bonds,” or retirement bond replicating portfolios, which provide stable and predictable replacement income during the decumulation period. Second, it describes investment strategies that combine retirement bonds with an efficient performance-seeking portfolio so as to reduce uncertainty over the future amount of income while offering upside potential. Finally, strategies that employ risk insurance techniques are proposed to secure minimum levels of replacement income while allowing for the possibility of reaching higher levels of income.

Keywords: goal-based investing, retirement investing, replacement income, hedging portfolio

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ISBNs: 9781108926621 (PB), 9781108917377 (OC)
ISSNs: 2631-8571 (online), 2631-8563 (print)

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