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The "Three Laws" of retirement

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Retirement planning hinges on achieving fundamentally contradictory objectives: To preserve wealth; to avoid outliving one's savings; and to maximize growth potential. There is no one-size-fits-all portfolio that can achieve all of these goals at once. So how should families think about balancing and prioritizing their approach? Perhaps the "Three Laws of Robotics" may help.

Key points

- It is straightforward to build a portfolio that prioritizes capital preservation, a portfolio that focuses on generating lifetime income, or a portfolio that aims to maximize growth potential. It's far more challenging—perhaps impossible—to build a static portfolio that accomplishes all three of these objectives effectively at the same time.
- By segmenting wealth into three distinct strategies, the Liquidity. Longevity. Legacy. framework aims to help families build portfolios that balance their competing objectives, and to help them adjust these portfolio over time to reflect changing priorities.
- In this short article, we discuss some of the reasons the Liquidity. Longevity. Legacy. strategies may help to uncover opportunities in a family's investment portfolio and financial plan.

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The Three Laws of Robotics

I loved reading Isaac Asimov's *I, Robot* novels when I was growing up. In these stories, robots are governed by the famous Three Laws of Robotics—rules designed to keep them on the straight and narrow:

- First Law: A robot may not injure a human or, through inaction, allow a human to come to harm.
- Second Law: A robot must obey a human's orders, except where such orders would conflict with the First Law.
- Third Law: A robot must protect its own existence as long as such protection does not conflict with the First or Second Law.

These laws were a powerful literary device. At first, they seem rock solid, but as the stories unfold, conflicts between the laws lead to unexpected consequences. Robots and humans alike must navigate tough choices, balancing safety, obedience, and self-preservation.

For example, if telling the truth might harm a human's feelings or cause distress, does that violate the First Law? Is a "harmful truth" better than a "harmless lie" that could cause greater harm in the long run?

Or consider when the Second Law conflicts with the Third Law: Can a robot obey an order to carry out a dangerous task if it cannot survive long enough to complete that task? Is it possible to obey the order at all?

The Three Laws of Retirement?

When it comes to retirement planning, I see a parallel to the Three Laws of Robotics. If we boil down retirees' objectives, it might make sense to categorize them into a similar trio of "Laws":

- First Law: A retirement strategy must generate sufficient reliable cash flow to meet spending goals.
- Second Law: A retirement strategy must support flexibility and resilience, unless this would conflict with the First Law.
- Third Law: A retirement strategy must maximize after-tax growth potential, unless this would conflict with the First or Second Law.

Like Asimov's Laws, these retirement goals often conflict with one another, pulling us in different directions.

For instance, cash may be useful at preserving capital in the short term, but historically it has not been effective at maintaining purchasing power over time. For example, since 2007, the Bloomberg one- to three-month Treasury Bill Index's total return has trailed the Consumer Price Index by about 20%, according to Bloomberg data, even without accounting for potential taxes.

Similarly, stocks have been effective at growing wealth over long periods (the S&P 500 Index has grown by about 12% per year for the past 30 years, according to Bloomberg data), but they have also been extremely volatile—too volatile on their own—to generate a reliable stream of income for lifetime spending.

Annuities offer another example. They may provide a reliable stream of lifetime income; however, on their own, they have limited potential for long-term growth.

The Liquidity. Longevity. Legacy. framework

It’s challenging to achieve all these objectives with a single asset or a static portfolio. However, it is possible to build a portfolio that balances these goals—and to adjust this balance as a family’s needs and priorities evolve—by using a framework, such as the Liquidity. Longevity. Legacy., that considers needs and goals over different timeframes.

The Liquidity. Longevity. Legacy. framework aims to strike this balance by segmenting wealth into three distinct strategies, using a family's priorities to build a customized portfolio that reflects the time horizon of each goal:

- The **Liquidity strategy** focuses on capital preservation, aiming to generate cash flow regardless of short-term market movements.
- The **Longevity strategy** prioritizes consistent growth and income, to help prevent the portfolio from being prematurely exhausted.
- The **Legacy strategy** represents assets that exceed the family's lifetime spending needs. Free from the need to supply cash flow for near-term goals, these resources may be devoted to a portfolio that aims to maximize growth potential.

Just as Asimov’s robots had to balance competing priorities, successful retirement planning requires thoughtful trade-offs. The Liquidity. Longevity. Legacy. framework enables families to address conflicting objectives by assigning each goal its own strategy, reducing the need to compromise one priority for another.

This approach also allows portfolios to adjust as family needs change over time, often in ways that differ from conventional wisdom. For example, the traditional “glide path” recommends reducing stock exposure as retirees age to lower the risk of selling investments at a loss during market downturns.

While some de-risking may be prudent, especially early in retirement, it is possible to go too far. In many cases, allocating enough to a Liquidity strategy to cover three to five years of withdrawals is sufficient to weather most bear markets, as noted in the CIO research team's *Bear market guidebook*.[1]

Beyond the Liquidity strategy, further de-risking may not align with a family's long-term goals. For example, if a growing portion of a family's assets is no longer needed for lifetime spending, it may be appropriate to move this excess wealth to the Legacy strategy, and investing them for long-term growth. This approach could result in an increasing allocation to stocks throughout retirement, contrasting with the typical glide path in a manner that may enhance the portfolio's overall growth potential—especially those assets earmarked for future generations.[2]

By segmenting wealth, the Liquidity. Longevity. Legacy. framework may help families avoid sacrificing long-term growth for short-term security, or vice versa. Instead, each priority may be managed intentionally and adapted as circumstances evolve.

To learn more about the Liquidity. Longevity. Legacy. framework, reach out to a financial advisor who can help to apply these concepts to your family's unique circumstances.

Time frames may vary. Strategies are subject to individual client goals, objectives and suitability.

End notes

1 UBS. (2024). *Bear market guidebook*. UBS Global Wealth Management.

2 UBS. (2024). *UBS Wealth Way: A purpose-based approach to managing your wealth*. UBS Global Wealth Management.

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