#78

# Allocate Your Assets for the Slow-Down Stage of Retirement

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If you've been taking income from your nest egg for a while, it may no longer be growing at a rate that outpaces or even equals inflation. Your annual withdrawals have likely steadily grown to meet your inflating expenses, which may have doubled since the beginning of your retirement.

Reevaluate and determine whether you need to change the asset allocation of your investment portfolio. To intelligently assess your asset allocation, first do the following:

- Review your health and prospects for longevity (and those of your spouse).
- Review how well your nest egg has been doing and whether you can expect it to last as long as you do.
- Re-estimate your future expenses for
  - Everyday living
  - Healthcare and the potential need for long-term care
  - Unmet retirement dreams
- Revisit your goals for leaving an inheritance to your heirs.
- Assess your ability and desire to continue managing your investments.

After you do this review, you should have all the insights you need to make good asset allocation decisions.

## Revisit the Four Elements of Retirement Uncertainty

Strategy #77 discusses four elements of retirement uncertainty. Three of the four are still important for those in the slow-down stage of retirement:

- **Longevity risk:** Your updated retirement income plan can tell you whether this challenge is still a major consideration for you. Evaluating whether you'll outlive your money is a bit easier at this stage because you're planning for inflation, investment returns, and living expenses for fewer years.
- **Inflation risk:** As you revise your retirement income plan, pay special attention to inflation trends for the goods and services you need going forward — especially healthcare, long-term care, major home maintenance or remodeling, and other large periodic expenses.
- **Market risk:** Your asset allocation strategy for your updated retirement income plan will continue to address the risk that you'll have to sell investments when they're down.

Large investment losses that occur during early retirement are compounded over time, so avoiding them is imperative; however, when you're well into retirement, timing risk isn't a major concern anymore.

Next, look at the key asset allocation decisions you first explored in active retirement (refer to Strategy #77 for details).

## Rethink Income Annuities

If you decided against the purchase of an immediate annuity during the active stage of your retirement, you may want to reconsider your decision now. If your updated retirement income plan indicates that you face a high probability of living longer than your assets will last, an immediate annuity may provide the lifelong income that meets your needs.

Next, decide whether to purchase an annuity with an income stream that increases each year to protect against inflation. Because you face fewer years of compounding inflation than you did when you first retired, an annually increasing income isn't as essential as it was then. Look at the current rate of inflation to see whether it's been trending up or down over the last several years. And look at the rate of inflation for healthcare and long-term care services; these costs increase by a higher rate than the cost of normal goods and services.

Assess the value of immediate-income annuities in regard to your current financial realities and goals. If you can afford to purchase the amount of annuity income you need, including an inflation benefit, you reduce the impact of the other three elements of retirement uncertainty. You may place a high value on the peace of mind you get from a guaranteed income.

If you can't afford to purchase the level of income you need with inflation protection, evaluate how close you can come to meeting your current needs if you avoid the additional cost of the inflation protection. And if you decide against investing in an income annuity, you need to continue to invest wisely. See Strategies #19 and #22 for more on annuities.

## Examine Your Stock, Bond, and Cash Asset Allocations

As you enter the slow-down stage of retirement, determine whether and how you should change your investment portfolio to better suit your circumstances.

REMEMBER

When thinking about your asset allocation for the slow-down stage of retirement, keep the following in mind:

- **Cash and bonds:** Your first concern is still to secure the cash flow you need over the next eight or so years; set this amount aside in cash and bonds.
- **Stocks:** Depending on your age and life expectancy, you may want to go from seeking inflation-beating investment returns to achieving inflation-matching investment returns. This method allows you to you reduce your allocation to stock investments within your portfolio. Reducing your overall stock holdings to 35 to 40 percent of your portfolio is perfectly reasonable.

All the principles of rebalancing discussed in Strategy #77 still apply. In fact, you should be even more vigilant and disciplined here because you have less time to make up for mistakes. Replenish the cash with your profits from the stocks as you get them so you're protected when the markets disappoint.

For the most part, the advice about bonds and bond funds from Strategy #77 holds. Look for bonds that seek to provide inflation-matching returns (or better); your bond allocation should include 50 to 60 percent of these bonds. Keep a portion of your stocks in all the major categories, but favor the more-conservative categories of U.S. (versus foreign), large company (versus small company), and value (versus growth) stocks.