

Retirement Income Portfolio for a Retiree

As people enter retirement, they face a new challenge: **turning their savings into sustainable income**. Most retirees recognize they must continue investing to keep up with the rising cost of living, yet they also need to begin drawing from their accounts for income.

That's why a **retirement income portfolio** is fundamentally different from an **accumulation portfolio** built during working years. Structuring a portfolio for retirement requires a different mindset, greater diversification, and strategies to reduce risk and preserve income over time.

Here are **five key differences** between retirement and accumulation portfolios:

1) **Shift Toward Conservative Stock Exposure**

Retirees generally still need some stock market exposure, but the focus changes:

- Favor **conservative, income producing stock funds**
- Look for **dividend-paying and dividend-growing investments**
- Emphasize **quality** (e.g., blue-chip companies) over high-growth risk investments
- Consider **lower-volatility** or balanced strategies

Funds categorized as **dividend, value, or growth-and-income** may be well-suited to generate ongoing cash flow while reducing risk.

2) **Inflation Protection Becomes Critical**

While younger investors rely on raises to keep up with inflation, retirees must rely on their **investments** to protect purchasing power.

Ways to address inflation include:

- **Treasury Inflation-Protected Securities (TIPS)**
- **Rising dividend stocks**
- **Real Estate Investment Trusts (REITs)** for additional diversification and inflation hedging

Even though inflation has averaged about 2.1% since 2000, its compounding effect has pushed up some prices by over 45%.

3) **Reduce Exposure to Aggressive Asset Classes**

Accumulation portfolios may include aggressive sectors like **small-cap stocks** and **emerging markets**. In retirement, however:

- Limit small-cap and emerging markets to 3% each
- Reduce high-volatility sectors to help lower portfolio risk

- Focus instead on **stability and predictable income**

Younger investors might hold 5-10% in these aggressive sectors – but retirees typically benefit from a more measured approach.

4) **Diversify Across Multiple Income-Producing Asset Classes**

Diversification is always important – but for retirees, it's essential for **generating income from multiple sources**. These may include:

- Dividend-paying US. Stocks
- Real estate (via REITs)
- International equities
- Treasury and corporate bonds
- Global fixed income
- Money market accounts

Having various asset classes improves your ability to **withdraw from strong-performing areas** and selling during downturns.

5) **Maintain a Money Market Account for Income Stability**

Retirees should consider **opening or maintaining a money market account** and directing portfolio dividends and interests into it. When income is needed, this cash can be withdrawn first. This can help **avoid selling stocks during market declines**, such as the fourth quarter of 2018 when equities dropped 20%. Cash buffers can reduce the need to liquidate core holdings inopportune times.

Manage Sequence-of-Return Risk

One of the biggest threats retirees face is **sequence-of-return risk** – taking withdrawals from an account that is experiencing a temporary market decline. Losses early in retirement can significantly impact portfolio longevity.

By building a **well-diversified retirement income strategy**, retirees increase their chances of sustaining income and avoiding premature depletion of their assets.

Retirement Portfolios Require a Different Approach

Retirees today are living longer – and that requires smarter planning. A **retirement income portfolio** is not just a continuation of a growth portfolio. It's an actively managed retirement strategy that considers income, risk, inflation and longevity.

With a thoughtful allocation and proactive income planning, retirees can increase the odds that their money will last well into their golden years – and perhaps even leave a legacy.

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*Investing involves risk, including the **loss of principal**. No strategy or diversification approach guarantees success or prevents loss. Specific risks include:*

- **Market risk and systematic risk**
- **Small-cap and mid-cap volatility**
- **International investing risks**, including currency and political risk
- **Bonds risk**, such as interest rate and credit risk
- **REIT risks**, such as liquidity and interest rate sensitivity
- **Money market risk** – these funds are not FDIC insured and may lose value
- **TIPS** (Treasure Inflation-Protected Securities) are backed by the U.S. government and indexed to inflation. **CPI** (Consumer Price Index) measures cost-of-living changes based on a standard basket of goods.
- Before investing, always review a fund's **prospectus**, which outlines risks, charges, and expenses.

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