How is a retirement income portfolio for a retiree different from an accumulation portfolio for a younger investor?

Many retirees realize they need to invest their retirement funds to last throughout their lifetime. They realize they need to continue to grow their wealth to keep up with the ever-rising cost of living and they also need to take income from their accounts. Structuring a retirement income portfolio can be more challenging than an accumulation portfolio.

There are five primary ways a retirement income portfolio is different:

1) Typically, retirees still need some stock exposure however focusing on more conservative stock funds may align better with their needs. The funds can emphasize income in the form of dividends and in many cases rising inflation adjusted dividends. Dividend funds or growth and income funds may help to provide income and tend to hold higher quality blue chip companies. They can also look towards lower volatility strategies and less towards growth investments.

2) Inflation may be managed through pay raises in your working years and ideally through your investments once retired. Retirees can consider adding Treasury Inflation Protected Securities (TIPS) on the bond side and the above-mentioned rising dividend funds on the stock side. An allocation to real estate investment trusts or REITS may also help provide inflation protection. Even though inflation has only averaged 2.1% since the year 2000, the compounding effect of inflation has raised some prices by 45% over this time period.

3) Aggressive asset classes should ideally have a lower allocation. Consider lowering your small company allocation to 3% and emerging markets to 3%. An accumulation portfolio could have less than 5% and up to 10% to each of these asset classes.

4) Have multiple sources of income through multiple asset classes – dividend paying stocks, real estate, international stock, corporate bonds, treasury bonds, global bonds and cash accounts. Being well diversified may give you a better chance of being able to identify and sell an asset class after it is has appreciated.

5) Consider keeping (or opening) a money market account to collect your interest and dividends from your portfolio. When you need income, you can look to this account first and possibly avoid being forced to sell an asset class – such as stock funds - that may have declined in value. This would have been very valuable in the fourth quarter of 2018 when the stock side declined 20%.

By structuring your assets as mentioned above, you have a good probability of avoiding sequence of return risk. This is when a retiree draws funds for retirement income from a declining asset class. If the declines are in the early years of retirement, the retiree's funds may be depleted early.

Many retirees are living longer today. By having a well-diversified portfolio and an active retirement income strategy, a retiree gives themselves a higher probability of their money lasting into their golden years and possibly beyond.

The views and opinions expressed herein are those of the author and may or may not represent the views of Capital Analysts or Lincoln Investment. The material presented is provided for informational purposes only. Nothing contained herein should be construed as a recommendation to buy or sell any securities. As with all investments, past performance is no guarantee of future results. No person or system can predict the market. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the loss of principal.

There are risks associated with investing in the stock markets, including: 1) Systematic risk - also known as market risk, this is the potential for the entire market to decline; 2) Unsystematic risk - the risk that any one stock may go down in value, independent of the stock market as a whole. This also incorporates business risk and event risk; and 3) Opportunity risk and liquidity risk. Funds that invest in stocks of small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments. The value of the shares of a Real Estate Investment Trust (REIT) fund will fluctuate with the value of the underlying assets (real estate properties.) There are special risk factors associated with REITs, such as interest rate risk and the illiquidity of the real estate market. Treasury Inflation Protected Securities are a treasury security that is indexed to inflation in order to protect investors from the negative effects of inflation. TIPS
are considered an extremely low-risk investment since they are backed by the U.S. government and since their par value rises with inflation, as measured by the Consumer Price Index, while their interest rate remains fixed. The Consumer Price Index measures prices of a fixed basket of goods bought by a typical consumer, widely used as a cost-of-living benchmark, and uses January 1982 as the base year. The investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund.

Inflation is the rise in the prices of goods and services, as happens when spending increases relative to the supply of goods on the market. Moderate inflation is a common result of economic growth.

A fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The statutory prospectus and summary prospectus (if available) contain this and other important information about the investment company. Please read the prospectuses carefully before investing.