MarketWatch

Retirees need fewer stocks, more annuities

BOSTON (MarketWatch) — Fewer stocks, more annuities. That, in essence, is the advice gleaned from two just-published reports for the benefit of those living in or approaching retirement.

Retirees should invest just 5% to 25% of their portfolios in stocks, or at least that's the case for those whose primary goal is to minimize the risk of running out of money and sustaining their withdrawals, said one report published by Putnam Investments new think tank.

And, Americans can avoid the risk of outliving their assets by saving more, working longer, investing wisely, delaying Social Security and buying a life annuity, according the Government Accountability Office (GAO).

For his part, W. Van Harlow, Ph.D., CFA charterholder and director of research at the Putnam Institute, is suggesting a conservative asset mix largely because of what he views as the greatest risk to a retiree's portfolio: the unfavorable "sequence of returns" in the securities' markets.

That's a fancy way of saying retirees who have too much money in equities face the very risk that the stock market will keep falling at the very same time they are withdrawing money for their accounts. And that doing so increases the odds that they will outlive their money or, more likely, reduce their withdrawals and presumably their standard of living. (By the way, many retirees experienced this risk firsthand from 2000-2009. So it's not one of those risks that people talk about, but never have to face in reality.)

In an interview, Harlow noted that once a retiree starts taking money from their retirement accounts, the withdrawals become "path dependent." And if the success of a retirement income plan rests on whether the markets go up or down, one has to figure out how to protect oneself against that volatility, and especially against the risk of unfavorable "sequence of returns." And the best way to do that is by reducing one's overall exposure to equity to no more than 25%, he said.

Harlow also took issue with many life-cycle, or so-called target-date, mutual funds in the marketplace today, suggesting that many have far too much invested in equities. "The higher equity allocations used in many popular retirement investment products today significantly underestimate the risks that these higher-volatility portfolios pose to the sustainability of retirees' savings and to the incomes they depend on," he said in a release. His advice to retirees who own or plan to buy a target-date fund is to check the asset allocation of those funds.

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WRITTEN BY ROBERT POWELL