U.S.News & WORLD REPORT

ALSO PUBLISHED IN…
YAHOO! FINANCE

8 RULES FOR INVESTING AFTER RETIREMENT

Expert tips on how to invest money after retirement.

By: Coryanne Hicks - November 21, 2019

After years of investing for retirement, how to invest money after retirement should be straightforward. But as with most "shoulds" in life, what should be one way is actually another. Investing after retirement is anything but straightforward. Retirees have to juggle finding safe investments to protect their income streams while not being so safe they risk running out of money in retirement. To help youfind the right investmentsafter retirement, here are eight rules for investing after retirement, according to retirement experts.

Be mindful of risk.

It can be hard for retirees to tone down their risk appetite when investing in retirement – they've had decades of practice at investing for growth, after all. "We see a lot of people 50 and older chasing returns, taking on too much risk with their investments," says Patrick Murphy, CEO of John Hancock Retirement. "Although a potentially bigger return is enticing, there isn't time to make up for any significant losses." He says a properly diversified portfolio is "key to maximizing returns over a longer life expectancy while managing risk appropriately to avoid significant short-term losses." Retirees can take income from the conservative portion of their portfolios while allowing another portion to continue growing, he says.

Watch out for inflation risk.

While the risk of portfolio declines can't be overlooked when investing in retirement, retirees also face another type of risk: The risk ofrunning out of money in retirement. "Even though we have low inflation today, it's critical for retirees to keep up with inflation," says Jason Colin Patrick, principal of Fiduciary Advisors in Newport Beach, California, who specializes in advisory services to corporate retirement plans. "Most retirement investors will need to take an approach that includes equities throughout their savings years and into retirement." So you may need to moderate the impulse to seek safe investments for seniors by including some growth-oriented ones in your portfolio, too.

Think like Goldilocks.

Jeff Klauenberg, founder of Klauenberg Retirement Solutions in Laurel, Maryland, says this dual-risk retirees face means you should think of investing in retirement like Goldilocks. The "just right" investment strategy means not investing for a higher rate of return than your retirement needs. "If your retirement investment analysis shows that a 5% average return will give your retirement lifestyle a high probability of success, why invest for a 10% return?" he says. To help you keep risk in perspective, "separate what you need for retirement from any assets you want to accumulate and pass on as a legacy. This way you can grow the assets you do not need for retirement without risking your future security."

Break your retirement down into five-year segments.

The challenge when investing after retirement is that "no one investment or investment style can address the needs of a 30-year retirement," Klauenberg says. Each five-year segment, such as age 65 to 70 and 70 to 75, "has its own unique lifestyle needs and therefore investment needs." He says that money invested in the first two or three segments, during which timeretirement incomeneeds are highly affected by the stock and bond markets and the sequence of returns, should be invested more conservatively than money invested in later retirement years. "Withdrawing income from an investment portfolio during a market decline removes shares that will never be replaced again," he says. Segments three through five (or years 11 through 25) can be invested for growth "since they'll have time to recover from negative or bear markets."

Consider real assets for diversification and inflation protection.

Brian Cordes, senior vice president and head of Portfolio Specialists at Cohen & Steers, points to real assets like REITs, infrastructure, commodities and natural resource equities as a means of providing diversification, long-term return potential andinflation protection. Since real assets have "generally performed well when both stocks and bonds have underperformed at the same time," real assets can help "defend against otherwise challenging market environments," Cordes says. For the best results, he tells retirees to invest across multiple real asset classes: "While no single real asset class has excelled equally across diversification, total returns and inflation sensitivity, by combining them in a cohesive investment framework, investors can navigate those trade-offs more effectively."

Look to preferred securities for fixed income diversification and tax advantages.

"To achieve a more balanced fixed income portfolio with lower exposure to various risks, investors should consider pairing high-yield bonds and/or municipal bonds with preferred securities," Cordes says. Preferred securities are a type of hybrid security with characteristics of both stocks and bonds. "With preferreds, investors are paid extra for subordination (having a lower claim on company assets in the event of liquidation), for the possibility that payments may be omitted or deferred (historically rare in practice), and for the general complexity of preferred securities," Cordes says. Also, since most preferreds are treated as qualified dividend income, they are often taxed at a top rate of 20% instead of 37%, he says.

Have a drawdown strategy.

A challenge when investing money after retirement is switching from an accumulation mindset to a preservation mindset. Yourinvestment objectivebecomes making the most of the retirement investments and income streams you have. To do this, Murphy says retirees should have a drawdown strategy. Retirees "can increase the expected lifetime value of their savings by leveraging them in a tax-efficient manner and optimizing their Social Security claiming strategy." He says almost half of retirees don't get the full benefits of Social Security because they claim before their full retirement date. "But, by having a plan such as delaying when they claim, retirees may significantly increase the lifetime value of their benefits," Murphy says.

Have an estate plan.

Investing money after retirement isn't only about you and your retirement income needs. There's also your beneficiaries to think about.An estate plan is essentialto ensuring any inheritance you leave reaches your beneficiaries in the most tax-efficient manner possible, and your wishes are carried out. "Though estate taxes have fallen as of late, they can and most likely will be re-imposed," says Mark Charnet, founder & CEO of American Prosperity Group in Pompton Plains, New Jersey. He recommends having these planning documents in good order: a will that empowers your executor to carry out your wishes, a living trust to avoid probate, a power of attorney enabling someone to act on your behalf in financial decisions, a health proxy doing the same for health decisions and a living will with advanced directives to physicians.

Rules for investing after retirement:

- Be mindful of risk.
- Watch out for inflation.
- Think like Goldilocks.
- Break your retirement down into five-year segments.
- Consider real assets for diversification and inflation protection.
- Look to preferred securities for fixed income diversification and tax advantages.
- Have a drawdown strategy.
- Have an estate plan.