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## Retiring: Retirees Need Less Stocks, More Annuities

### By Robert Powell, A DOW JONES COLUMN

Retirees should invest just 5% to 15% 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.

For his part, W. Van Harlow, Ph. D., CFA charter holder and director of research at 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 that money or, more likely, reduce their withdrawal 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 market 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.**

So, using Putnam’s research as your guide, any overall portfolio where the percent allocated to stocks greater than 25% would be subjects to the risk of unfavorable sequence of returns.

Meanwhile, the 79-page GAO report, which was undertaken by at the request of Sen. Herb Kohl, D-Wisc., the chairman of the Special Senate Committee on Aging, details how Americans can avoid the risk of outliving their savings.

**Overall, The GAO Found that experts recommended that retirees systematically draw down their savings and convert a portion of their savings into an income annuity to cover necessary expenses or opt for the annuity provided by an employer-sponsored defined benefit pension instead of a lump-sum withdrawal.**

The GAO also found that given the difficult economy and life expectancy increases, experts recommend that most workers, if possible, continue to work and save well beyond age 62.

And the GAO said that an immediate annuity can protect retirees from the risk of outliving one's savings, but that only about 6% of those with a 401(k)-type plan purchased one at retirement.

According to experts consulted by GAO for its report, retirees ought to consider the following:

- Many retirees should delay asking Social Security to increase payments for life.
- Depending on net worth, households also should consider buying a life annuity, particularly if they don't have a traditional pension that guarantees sufficient income.
- Middle-income households, such as those with $191,00 in financial assets and without a traditional pension, should consider using a portion of their savings to purchase an inflation-adjusted annuity.
- **Retirees should make withdrawals from their investment portfolio at a rate of no more than 3% to 6% annually at retirement, with adjustments for inflation, to help ensure they won't run out of money**.

Sri Reddy, a senior vice president and head of institutional income at Prudential Retirement, commended the GAO for addressing what Americans can do to ensure income throughout retirement, saying that the recommendations are logical and rational.

In essence, Reddy said people need a baseline understanding of what they need for retirement and some forms of protection in place while saving for retirement. "We also need to focus on outcomes," said Reddy. "Not account values, but how much we need in terms of retirement income."

He noted, for instance, that an **annuity with a guaranteed minimum withdrawal benefit can provide those saving for retirement with some degree of protection and an idea of how much income they will receive in retirement.** That type of annuity protects savers against investment losses and guarantees the percent and total amount a person can withdraw from the annuity.

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