

# Maintaining Your Lifestyle in Retirement



The need for retirement planning doesn't end with the onset of retirement. For those lucky to be a new retiree, you will now see a shift in your focus from building wealth to managing and preserving it. One major challenge as you enter this new phase is to make sure you're your investment portfolio can supply cash flow for the duration of your life—and through different economic and market conditions. This is where we can become one of your greatest assets. Our knowledge and expertise allows us to build a roadmap that can guide you on your path to enjoy those goals you set long ago.

Experts have studied portfolio longevity or endurance to help retired investors reduce the odds of depleting their wealth too soon. Studies reveal that three main elements act as the drivers for a portfolio's ability to endure under the stress of changing markets and spending levels: asset mix, spending level, and investment time frame.<sup>1</sup> It probably does not come as a surprise to you that certain aspects of these factors are within your control while others are not.

## **Asset Mix**

Asset mix describes the ratio of stocks to bonds in a portfolio. This determines risk exposure and expected performance, and is one of the most important decisions investors of all ages can make. Historically, stocks have outperformed bonds and outpaced inflation over time. This return premium reflects the higher risk of owning stocks.<sup>2</sup> Consequently, the larger the equity allocation, the greater a portfolio's expected return—and risk.

Keep in mind that risk and return go together. A higher allocation to equities increases the risk of experiencing periods of poor returns during retirement. But if you can handle the risk, having more equity exposure in a portfolio enhances its return potential. Growth can bring higher cash flow, inflation protection, and portfolio endurance over time.

## Spending Level

Portfolio withdrawal is typically described in terms of a specified dollar amount (e.g., \$50,000 per year) or a percent of annual portfolio value (e.g., 5% of assets each year). Neither method is ideal, however—and for different reasons.

- **Specified dollar amount:** withdrawing a fixed amount each year and adjusting it for inflation can provide a stable income stream and preserve your living standard over time. But the portfolio may survive only if future withdrawals represent a small proportion of the portfolio's value. One academic study quantified this amount. It found that a retiree with at least a 60% stock allocation can withdraw up to 4% of *initial* portfolio value (adjusted for inflation each year), and enjoy a high probability of never running out of wealth.<sup>3</sup> Choosing a higher withdrawal amount is not likely to be sustainable, especially if the portfolio faces an extended period of negative returns.
- **Percent of annual portfolio value:** withdrawing a fixed percentage of assets based on *annual* asset value makes it unlikely that you will deplete retirement assets because a sudden drop in market value would be accompanied by a proportional decline in spending. But this method can produce wide swings in your living standard when investment returns are volatile.

## Investment Time Frame

Investment time horizon may be the hardest to estimate, especially if it is the same as your lifespan. In this case, you can only guess how long your portfolio must support spending. If you plan to bequeath assets, your investment time frame may extend beyond your lifetime. This may influence your risk and spending decisions as well.

Time frame forces a tradeoff between the short and long term. Those with a longer investment time horizon might choose a higher exposure to equities. But they may have to offset this risk by being more flexible about spending over time. Elderly retirees and others with a short time horizon may choose a less risky allocation or a higher payout rate, although they can experience rising spending levels, too. In any case, you should think carefully about equity exposure and avoid taking more risk than you can afford.

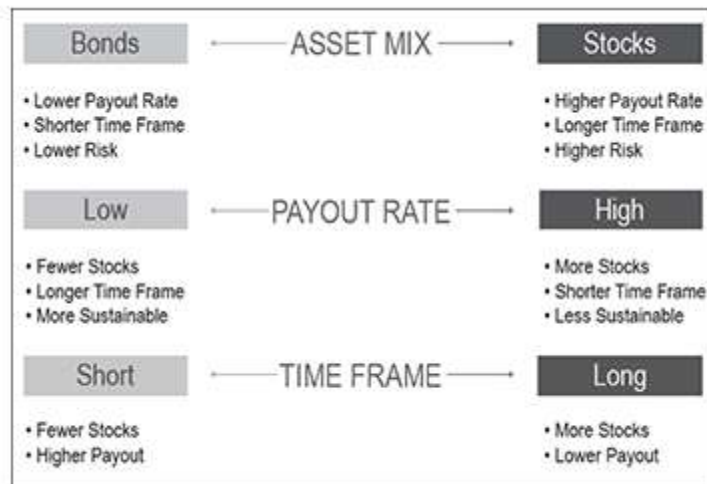
## Considerations

Planning involves assumptions about the future—assumptions that may not pan out. Although you cannot avoid making assumptions, you can ask whether they are realistic and consider how your lifestyle might change if future economic and financial conditions are much different than projected. Managing asset mix, payout, and time horizon

inevitably involves tradeoffs.

For example, as illustrated in Exhibit 1, a bond-dominated portfolio with a lower expected return may suit investors with a shorter time horizon, or require them to accept a lower payout rate to increase the odds of portfolio survival. A portfolio with a higher allocation to equities may be appropriate for someone with a long-time horizon or a strong desire for a high payout rate, but a higher assumption of risk also results in greater uncertainty about future wealth. Retirees who take this route must be able to handle the risk emotionally, and they should be ready to adjust their lifestyle in response to market downturns. In fact, investor flexibility plays a role in all tradeoffs.

### Exhibit 1: Basic Tradeoffs in Portfolio Survival



Finally, although you cannot fully control these and other factors involved in portfolio endurance in retirement, having more wealth can improve the odds of having a less stressful financial life. A more substantial nest egg might enable you to take fewer risks, enjoy a higher sustainable spending rate, or extend the productive life of your portfolio.

Have a great weekend!

Source: Efficient Advisors

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## Golf Tip of the Week



### Find the Fairway by Tidying Up Your Grip

If you want to keep your score low, hitting the fairway is key—especially if you have a high handicap. However, golfers who have difficulty driving tend to have an outside-in swing, which can cause everything from pop-ups to slices to cuts. One way you can overcome this challenge is by tidying up your grip.

Consistent swings rely on the position of your hands on the handle. You can tidy up your grip by doing the following:

- Focus on keeping your grip more in your fingers.
- Check that your thumb and index finger on each hand form a V-shape that points at your right shoulder.

Setting up your grip in this manner does three things for your swing. You will:

1. Create the proper position at address.
2. Control how your hands move through impact by governing your release, turn, and roll.
3. Avoid collapsing your wrist, which keeps you from over- or under-rotating your handle.

Tip courtesy of Chuck Winstead | Golf Tips Magazine<sup>i</sup>

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## Recipe of the Week



### Smothered Pork Chops

**Serves 4**

#### **Ingredients:**

1½ cup flour, plus 3 extra tablespoons  
1 teaspoon seasoned salt  
1 teaspoon lemon pepper  
½ teaspoon cumin  
¼ teaspoon cayenne pepper  
Pinch of salt  
Ground black pepper, to taste  
8 thin, bone-in pork chops  
¼ cup olive oil  
7 tablespoons butter  
1 large onion, peeled and sliced  
1 green bell pepper, seeded and sliced  
1 yellow bell pepper, seeded and sliced  
1 red bell pepper, seeded and sliced  
2 cups chicken broth, plus extra on hand for thinning (if needed)  
2 tablespoons cream

#### **Directions:**

1. Combine flour, seasoned salt, lemon pepper, cumin, cayenne pepper, salt, and black pepper in a pie plate.
2. Dredge each pork chop in flour mixture.
3. Add olive oil and 4 tablespoons of butter to a heavy skillet, and heat on medium.
4. Fry each pork chop until browned, about 2 minutes on each side, and remove seared chops from skillet. Cover the pork chops to keep them warm.
5. Toss onions and peppers in the same skillet and cook them for about 10 minutes, stirring as needed. Once cooked, remove from skillet and set aside.

6. Place 3 tablespoons butter and 3 tablespoons flour in the same skillet, and whisk together until they form a paste (roux).
7. Cook the roux until it becomes a dark gold, stirring consistently for about 2 minutes.
8. Add broth to the roux by gradually whisking in small amounts in batches. Whisk out the lumps and then add the 2 tablespoons of cream.
9. Pour in more broth to thin out the gravy if it becomes too thick. Add salt and pepper to taste, if needed.
10. Toss the cooked onions and peppers in the gravy, coating them completely.
11. Serve pork chops and spoon the gravy on top.

Recipe adapted from The Pioneer Woman<sup>ii</sup>

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## Health Tip of the Week



### Tips to Help Manage Insomnia

Insomnia is a medical condition that leaves people unable to fall asleep, which can lead to a variety of other health problems, such as high blood pressure and heart attacks. While a sleep specialist can help you troubleshoot how to medically manage insomnia, you can also do some things at home to encourage a restful night's sleep. Here are three self-care techniques to help you manage your insomnia.

- **Exercise Earlier in the Day:** Getting regular exercise can help you sleep better, but it is more beneficial when you do so earlier in the day. Since you mentally stimulate your brain, you'll become more alert after exercising. Your body temperature also increases—and can stay that way for up to 6 hours. As a general rule, aim to exercise at least 2 to 3 hours before your normal bedtime.

- **Leave the Bed:** If you're tossing and turning, staying in bed can often continue the cycle. Instead, try leaving your bedroom and doing a quiet activity, such as reading or listening to calm music. This choice can help you wind down while keeping you from associating your bedroom with wakefulness.
- **Avoid the TV and Computer:** At bedtime, your melatonin levels should rise and help you feel tired. However, when you watch TV or work on a computer, the noise and light can decrease the amount of melatonin in your brain. By turning off the screens, you will help your body create the hormones you need to feel fatigue and fall asleep.

Tips courtesy of WebMD<sup>iii</sup>

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<sup>i</sup> <https://www.golftipsmag.com/instruction/driving/easy-drives/>

<sup>ii</sup> <http://thepioneerwoman.com/cooking/smothered-pork-chops/>

<sup>iii</sup> <http://www.webmd.com/sleep-disorders/living-with-insomnia-11/slideshow-insomnia>