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# Think Total Return

*Never touch your principal in retirement? Think again.*

More than a century ago, an American financial archetype emerged – the household that lived on the interest earned by its investments, never touching its principal.

Times have changed, while the Vanderbilts, Carnegies, and Rockefellers could do that back in the Gilded Age, you will likely face a tough challenge trying to do the same in retirement. The reason? Low interest rates.

The federal funds rate has not topped 3% since the winter of 2008. In fact, the nation's benchmark interest rate has been under 2% since October 2008. In today's interest rate environment, you will need a substantial investment portfolio to live solely on income and dividends in retirement. In some parts of the country, a million-dollar portfolio might not generate enough income and dividends to help you maintain your lifestyle.[1]

Try another approach – the approach used by institutional investors. Wall Street money management firms and university endowment funds frequently rely on the total return investment strategy. In a retirement income context, this means that you strategically sell some assets to complement the dividends and interest income you receive.

Portfolio rebalancing is central to the total return strategy. The recurring ups and downs of the financial markets gradually unbalance a portfolio over time. A long bull market, for example, will usually leave a portfolio with a larger stock allocation than initially desired. To get back to the portfolio's target allocations, you need to sell shares of stock (or, stocks aside, amounts of other kinds of investments). The proceeds of sale equal retirement income for you.

Before you pursue this strategy, you need to determine two things. One, do you have a portfolio built so that you can potentially derive income from diverse asset classes? Two, assuming you have that diversification, how much dividend and interest income *(continued on page 2)*

# How Retirement Spending Changes With Time

*Once away from work, your cost of living may rise before it falls.*

New retirees sometimes worry that they are spending too much, too soon. Should they scale back? Are they at risk of outliving their money?

This concern is legitimate. Many households "live it up" and spend more than they anticipate as retirement starts to unfold. In ten or twenty years, though, they may not spend nearly as much.[1]

The initial stage of retirement can be expensive. Looking at mere data, it may not seem that way. The most recent Bureau of Labor Statistics figures show average spending of $60,076 per year for households headed by Americans age 55-64 and mean spending of just $45,221 for households headed by people age 65 and older.[1,2]

Affluent retirees, however, are often "above average" in regard to retirement savings and retirement ambitions. Sixty-five is now late-middle age, and today's well-to-do 65-year-olds are ready, willing, and able to travel and have adventures. Since they no longer work full time, they may no longer contribute to workplace retirement plans. Their commuting costs are gone, and perhaps they are in a lower tax bracket as well. They may be tempted to direct some of the money they would otherwise spend into leisure and hobby pursuits. It may shock them to find that they have withdrawn 6-7% of their savings in the first year of retirement rather than 3-4%.

When retirees are well into their seventies, spending decreases. In fact, Government Accountability Office data shows that people age 75-79 spend 41% less on average than people in their peak spending years (which usually occur in the late 40s). Sudden medical expenses aside, household spending usually levels out because the cost of living does not significantly increase from year to year. Late-middle age has ended and *(continued on page 2)*

# Think Total Return (continued from page 1)

is your portfolio likely to generate this year? The amount may fall short of the income you need. Rebalancing might be able to help you make up the slack.

Besides being fundamental to a total return approach for retirement income, rebalancing may also help you accomplish other objectives.

Rebalancing keeps your portfolio diversified, so that your retirement income does not depend too heavily on the performance of one asset class. It can stave off a potentially risky response to the ongoing desire for yield (some investors, frustrated by poor returns, direct money into high-risk investments they barely understand). It may also allow you to sustain your lifestyle and spending; relying only on dividends and interest may cause you to pare your spending back and notably reduce your quality of life.

Think total return. Explore the total return approach to retirement income planning, today.

Citations

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| 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|
| Bonds 19.91% | Non-US stocks 31.41% | Gold 27.74% | Bonds 16.04% | Real estate 20.14% | US stocks 32.05% | Real estate 27.15% | US Housing 5.42% | US stocks 11.96% | Non-US stocks 22.99% |
| Gold 3.41% | Gold 27.63% | Real estate 27.58% | Gold 11.65% | Non-US stocks 17.22% | Non-US stocks 22.62% | US stocks 13.52% | US stocks 3.66% | Real estate 9.55% | US stocks 21.60% |
| Cash 1.37% | Real estate 27.45% | Cmdties 17.44% | Corp Bonds 7.51% | US stocks 15.89% | US Housing 10.75% | Bonds 10.79% | Bonds 1.20% | Cmdties 9.29% | Real estate 9.12% |
| Inflation -0.02% | US stocks 25.94% | US stocks 14.82% | Real estate 7.28% | Corp Bonds 10.37% | Real estate 3.21% | US Housing 4.54% | Real estate 1.08% | Gold 9.12% | Gold 7.21% |
| Corp Bonds -6.82% | Cmdties 23.46% | Corp Bonds 9.52% | Inflation 3.06 | US Housing 6.48% | Inflation 1.51% | Corp Bonds 7.51% | Inflation 0.66% | Corp Bonds 5.96% | Corp Bonds 5.98% |
| US Housing -11.99% | Corp Bonds 19.76% | Bonds 8.47% | US stocks 2.10% | Gold 5.68% | Cash 0.06% | Inflation 0.67% | Non-US stocks 0.48% | US Housing 5.85% | US Housing 5.85% |
| Cmdties -36.01% | Inflation 2.82% | Non-US stocks 7.52% | Cash 0.05% | Bonds 2.89% | Corp Bonds -1.46% | Cash 0.03% | Cash 0.04% | Inflation 2.09% | Bonds 3.15% |
| US stocks -36.55% | Cash 0.15% | Inflation 1.44% | US Housing -3.89% | Inflation 1.76% | Cmdties -3.60% | Gold -0.19% | Corp Bonds -0.35% | Non-US stocks 0.96% | Inflation 3.15% |
| Real estate -37.34% | US Housing -3.86% | Cash 0.14% | Cmdties -8.26% | Cash 0.09% | Bonds -8.95% | Non-US stocks -5.04% | Gold -10.01% | Bonds 0.69% | Cash 0.90% |
| Non-US stocks -43.14% | Bonds -10.82% | US Housing -4.14% | Non-US stocks -12.18% | Cmdties -3.45% | Gold -27.79% | Cmdties -17.42% | Cmdties -21.91% | Cash 0.32% | Cmdties -3.92% |



# How Retirement Spending Changes With Time (continued from page 1)

retirees are often a bit less physically active than they once were. It becomes easier to meet the goal of living on 4% of savings a year (or less), plus Social Security.[2]

Later in life, spending may decline further. Once many retirees are into their eighties, they have traveled and pursued their goals to a great degree. Staying home and spending quality time around kids and grandkids, rather than spending money, may become the focus.

One study finds that medical costs burden retirees mostly at the end of life. Some economists and retirement planners feel that retirement spending is best depicted by a U-shaped graph; it falls, then rises as elders face large medical expenses. Research from investment giant BlackRock contradicts this. BlackRock's 2017 study on retiree spending patterns found simply a gradual reduction in retiree outflows as retirements progressed. Medical expenses only spiked for most retirees in the last two years of their lives.[3]

Retirees in their sixties should realize that their spending will likely decline as they age. As they try to avoid spending down their assets too quickly, they can take some comfort in knowing that in future years, they could possibly spend much less.

Citations

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