



# Risk of retirement longevity

Maximising investment returns over a longer life expectancy

There are lots of variables in retirement: how long people will live for, the costs of goods and services they will need, interest rates available on their accumulated savings, and so on. But once you have retired, investing is anything but straightforward.

Your finances are a primary consideration, there's no doubt about it. If you have insufficient income to pay your projected retirement expenses, or less surplus income than you anticipated, you could find yourself working years longer than you intended or facing a retirement lifestyle that may not be what you had in mind.

## PROTECTING YOUR INCOME STREAMS

Once you have retired, you'll have to juggle finding safe investments to protect your income streams while not being so safe you risk running out of money in retirement. The fundamental point about investing after retirement is that you are speculating to accumulate with a pot of money that represents the main body of your financial wealth.

However, once in the retirement stage, retirees often find that their actual costs are lower than they had expected. This situation can be the result of a number of factors. For instance, many expenses that absorbed a significant amount of your income in your working years may not exist during your retirement.

## CHANGING DEMANDS ON A RETIREE'S INCOME

Other demands on a retiree's income may also have changed or have been eliminated. Even if you retire more gradually, working part-time or perhaps periodically, the accompanying work-related expenses may still be greatly reduced.

Depending on your life stage, taking into account your children's ages and the age at which you retire, you may also have finished paying their education-related costs. Other important factors

to remember are that, in many cases, you are simply not having to save for retirement anymore.

## ENJOYING A LONGER LIFE

While it's not a comfortable notion to think about, you also need to plan for the possibility that you may become disabled or incapacitated yourself during retirement. The reality is that enjoying a longer life can bring unexpected challenges such as illnesses, accidents and the effects of ageing, which can lead to additional expenses, including the cost of long-term care.

You may be familiar with the rule of thumb that states you will need 70% of your pre-retirement income to sustain your lifestyle in retirement. In practice, however, this rule may be too general to address the very specific circumstances of each person's retirement. While this level of income may be adequate for some, the number of your dependents, your debt levels and your lifestyle aspirations can sway your needs significantly up or down.

## MANAGING RISK APPROPRIATELY

A 'thinking ahead' mindset is very important in your retirement planning. Do you foresee changes in your approach to investment management decisions when you retire? It can be hard for some retirees to tone down their risk appetite when investing in retirement. They've had decades of practice at investing for growth, after all.

A properly diversified portfolio in retirement is key to maximising 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.

## FACING ANOTHER TYPE OF RISK

While the risk of portfolio declines can't be overlooked when investing in retirement, retirees also face another type of risk: the risk of running out of money in retirement. Even though we have low inflation today, it's critical for retirees to keep up with inflation. Pressure on the Bank of England to boost the economy and push inflation back to its 2% target is expected to intensify.

Retirement investors who take an approach that includes equities throughout their savings years may also need to continue an element of this into retirement. If appropriate, some retirees may need to moderate the impulse to seek safe investments by including some growth-oriented ones in their portfolio, too.

## YOUR OWN UNIQUE LIFESTYLE NEEDS

The challenge when investing after retirement is that no one investment or investment style can address the needs of a 30-year retirement. Each five-year segment, such as ages 65 to 70, or 70 to 75, has its own unique lifestyle needs and therefore investment needs.

Money invested in the first two or three segments, during which time retirement income needs 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.



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## EXPERIENCING VOLATILE RETURNS

One of the most important aspects of successful investing in retirement is diversification. Holding funds in cash may be suited to some retirees planning to draw down their entire pot over a short period. However, it is highly unlikely to be suited to someone planning to draw down their pot over a longer period.

Diversifying investments across a number of different assets is important because it may help to reduce the risks of investing during this time of your life. By risk, we mean both that of losing money and that of experiencing volatile returns. ■

## HELPING MAKE SURE YOUR RETIREMENT SAVINGS LAST

Older investors have to balance the need to make withdrawals to live on in retirement with making sure they don't run out of money. You've worked so hard to save, and now you're finally retired. With the right strategy, you can help make sure your retirement savings last. Speak to us to discuss your options.

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