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10 RULES FOR INVESTING AFTER RETIREMENT

Expert tips on how to invest money after retiring.

By: Coryanne Hicks - December 27, 2021

How to invest your retirement money.

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, challenges that have only been compounded by the COVID-19 pandemic. To help you find the right investments after retirement, here are 10 rules for investing after retirement in a post-pandemic world, according to retirement experts.

Be wary of pandemic-induced spending patterns.

Life in lockdown was good for many savers' bank accounts as they found saving money easier when they couldn't spend it on fun things like travel and restaurants. But Sue Reibel, CEO of John Hancock Retirement, warns this may have created a false perception of retirement spending: "We hope that new retirees recognize that using the last 18 months as an indication of how much is needed for expenses is not a realistic picture of spending patterns for the next two, or for that matter, 25 years of retirement," she says. "Those that have retired during the pandemic should take another look at their retirement plan as things may not be as they seem." As encouraging as America's new savings patterns are, there is sure to be pent-up demand for leisure activities and "we don't want the gratification of consumerism, the excitement of tourism or the desire to make up for lost time, to dismantle anyone's retirement savings plan," Reibel says.

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. "Investing to accumulate wealth leading up to retirement is vastly different than investing when you are withdrawing money," says Gregory W. Lawrence, certified financial planner and founder of retirement planning firm Lawrence Legacy Group. As an example, consider the different experience an accumulation investor has of a down market versus a retiree: "Investing while markets decline can allow for the purchase of more shares at a lower purchase price," Lawrence says. "However, contrast that with a retiree who must withdraw every month and hence can be forced to sell their shares at a lower than desired price." For this reason, retirees need to make sure they aren't taking on too much risk, especially with money they'll need in the next couple years.

Watch out for inflation.

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. "Inflation has skyrocketed over this past year, something we haven't seen in the last 40 years," says Jason Colin Patrick, principal of Fiduciary Advisors in Newport Beach, California, who specializes in advisory services for corporate retirement plans. Inflation can cause you to burn through your retirement savings faster than expected if you don't take measures to mitigate its corrosion. "For current retirees who are seeing increases in food, gas, energy and other consumer goods, taking on additional risk, such as increasing equity positions, in their portfolio may help lessen the impact of rising prices," he says. At the same time, the Federal Reserve has announced plans to increase interest rates in the coming year. "As rates begin to rise, balancing an income generating portfolio with equities or short duration bonds may be a prudent route for investors near or in retirement," he says. "The good news is that as supply chain issues begin to ease, we expect prices will begin to stabilize over the next 12 months, helping to alleviate this added burden for retirees."

Think like Goldilocks.

Jeff Klauenberg, founder of Klauenberg Retirement Solutions in Laurel, Maryland, says the 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," he says. "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 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. "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."

Forget the 60-40 rule.

The old strategy of creating a portfolio that's 60% equities and 40% bonds just doesn't cut it in a world where bonds pay yields below inflation, called a "negative real rate," Lawrence says. "Reducing risk with bonds is phasing out, as a record percentage in equities now exists for investors." Instead, he suggests finding "creative alternatives" to the 60-40 portfolio, such as defending against loss by going into cash during declining markets and using strategies that have the potential to make money in both up and down markets. "These, however, are the realm of investing for competent professionals," he says, so it may be best to get help before trying to implement them.

Consider guaranteed income annuities.

Annuities have often gotten a bad rap as fee-heavy products, but they can serve savvy retirees well. The trick is knowing which annuities to use. Lawrence recommends that retirees consider putting some of their stock gains – which are likely to be significant after our long bull market – into the newer guaranteed income annuities. "This asset can essentially replace much of what used to be allocated to bonds, and the payouts are usually much higher," he says. "Although you give up some liquidity, they can pay very high guaranteed incomes and never run out for you and your spouse's lifetime." During your lifetime, they act like a personalized pension and then give you the option of transferring any unused portion to your heirs, he says.

Consider real assets for diversification and inflation protection.

Real assets like real estate, including real estate investment trusts (REITs), commodities and natural resources, have the potential to appreciate in value with inflation, making them good diversifiers and inflation hedges for retirees. Lawrence says master limited partnerships (MLPs) in oil and gas pipelines can pay sizable dividends and appreciate as oil prices rise. REITs also have strong dividend characteristics and tend to do well in inflationary climates. "If you have the personality for it, and it does take the right person, consider owning a rental in your IRA or Roth IRA," he says. "If there is a market pullback, you might get higher returns from a rental than a traditional stock, bond or annuity portfolio."

Have a drawdown strategy.

A challenge when investing money after retirement is switching from an accumulation mindset to a preservation mindset. Your investment objective becomes making the most of the retirement investments and income streams you have by balancing your long-term growth and income needs with your spending and investment projections. When switching from accumulation to decumulation consider high-quality conservative investments, such as a stable value fund, a short-term investment-grade bond fund and, for very short-term needs, a money market fund, Reibel says. "Retirees should make a budget and create a drawdown strategy that factors in Social Security, other retirement accounts, such as IRAs, and any additional sources of income." She recommends seeking advice annually from a financial professional to optimize income streams and ensure that you maintain diversification and proper allocations in your account as you transition into retirement.

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 essential to 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 reimposed," 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 for financial decisions, a health proxy doing the same for health decisions and a living will with advanced directives to physicians.