Becoming too conservative with your investment portfolio could mean you will run out of money during retirement

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In my last article on retirement, I discussed the need to re-evaluate your retirement planning to reflect the current market situations. The next phase of my retirement planning series will cover a topic that is very much in the news, but isn't something many retirees, or those approaching retirement, give serious thought to. That issue is the potential to actually outlive your retirement funds.

One of the problems with the recent financial downturn during the past year two years was the severe decline in the values of investment portfolios. But another problem for retirement planning is that many people got so scared by the market downturn and as a result became too conservative in their investment strategy, and did so shortly before the market upturn that began in March 2009. While conservative investments like bonds or certificates of deposit at banks will help you preserve the funds you currently have left in your retirement portfolio, it doesn't provide the type of growth you need in a portfolio to help sustain a viable long-term retirement income plan to overcome major issues like inflation, spiraling medical costs, and a longer life expectancy.

A recent study by the Center for Retirement Research at Boston College indicates that 51% of today's households will not have enough retirement income to maintain their pre-retirement standard of living, even if they work until age 65. And with Social Security's Full Retirement Age moving to 67 years old (for younger boomers), the housing marketing continuing to lag, and life expectancy increasing, retirees really need to re-evaluate their retirement goals and make sure they have enough money to live comfortably throughout their retirement years. What does this entail? It entails saving/investing more of your income and/or working longer.

For example, the average withdrawal rate from a retirement portfolio after retirement is between 4% and 5%. If you couple that with the amount inflation eats away at your portfolio (currently at 3%) and add the rising cost of medical care, including the potential for long-term care, and you can see how your portfolio can be depleted quickly if you are only invested in "safe" investments that are equal to or slightly less than your withdrawal percentage. On top of that, you need to factor in longevity when planning your investment strategies. In the past, most people didn't expect to live very long into their retirement. However, today your portfolio may have to fund your retirement lifestyle and needs for up to 30 years, because with advances in medical technology, many people are living well into their 80s and sometime even their 90s.

In addition, if you plan to do anything during your retirement, such as travel, along with the rising costs you will face for day-to-day living, it is unrealistic to assume that you may be able to squeak by in retirement with 60% to 80% of your pre-retirement income. At Bloom Asset Management, we do not agree with the conventional wisdom that people will need at least 80% of their pre-retirement income to live on comfortably. We believe that people need to have a rising income in retirement, which may mean they need to cover at least 100% of their pre-retirement income. More than likely, you will end up spending almost the same amount of money every month as you did before retirement.

So if you aren't working, and you are only invested in safe investments, where is that income going to come from?

That's why it is important for those close to retirement and retirees to consider a diversified investment portfolio that provides both safe investments, such as fixed income-oriented mutual funds and/or fixed annuities, and a healthy portion in equity-oriented mutual funds as well. Of course, the actual percentage in equity and bond investments may be different depending on your situation. .

While everyone's specific situation will dictate the percentage breakdown of stock and bond mutual funds in a portfolio, it is unrealistic to expect your retirement funds to provide a good retirement lifestyle for upwards of 20 to 30 years if you are only invested in so-called low risk investments. While I certainly don't advocate being extremely risky with one's retirement investments, you do need to understand your own situation with respect to what kind of retirement lifestyle you want to enjoy and what investment plan will help you achieve that objective. Running out of money earlier than planned should not be an option. .

At Bloom Asset Management, we actually do an analysis for existing clients that helps them determine their chances of *not* running out of money. We do this by running their portfolio through various market scenarios to find out how well it holds up, or how it enables them to meet their retirement income goals throughout their life.

Obviously, retirement planning has changed drastically in the past decade. Unfortunately, too many investors are focused solely on short-term performance and don't look at the long-term picture when it comes to retirement. Today, that long-term must include life expectancy. While it is a blessing that medical science has contributed to a greater life expectancy for most people, this must be factored in to all your investment decisions.

While having a conservative approach for your portfolio certainly eliminates the risk factor, it also increases the long-term risk that you will run out of money. If you are approaching retirement age, or are already retired, now is the time to re-evaluate your investments to make sure you will have the income needed to provide for you for many years to come.

Jack Riashi, Jr. is a financial advisor at Bloom Asset Management and a member of the firm's Investment Committee. He has been serving clients in the financial service industry since 1987. Prior to joining Bloom Asset Management, Jack served as director of investment services for a local financial service firm, where he was responsible for managing over $130 million in client assets. Jack holds the designation of Certified Financial Planner (CFP), a certification that less than 1 in 20 financial planners possess. He is a member of the Financial Planning Association, and a graduate of Wayne State University with a bachelor's degree in finance.