

Managing a Retirement Portfolio

Many of us have pondered over our retirement at some point, whether we are nearing or still working towards retirement. In retirement, our expenses will be funded not from employment income, but from drawing upon our existing wealth. We need to fund expected living expenses, and also prepare for unexpected medical expenses or pursuing new interests. Our wealth can be savings, CPF monies, investments, insurances, property and other assets.

In managing our retirement portfolios to generate income to fund our expenses, converting all our wealth into secure fixed income assets may not be the best solution. Historically, equity investments have provided higher returns over the long-term, granted the higher level of risks. Besides this, there is a case for equity investment in a retirement portfolio due to the following reasons:

- **Protect against living longer than expected** – We can assume living till a certain age and hope that the last dollar of our wealth will last us through our lifetime. However, it may not be a wise thing to do, given lengthening life expectancies due to medical advances. Through equity investments, it is possible for us to grow sufficient wealth to outlast our lives.
- **Protect against a depleting portfolio** – Even if we have enough wealth to last our lifetime, we may want to pass wealth onto our loved ones to make their lives more comfortable or to leave a legacy through donations or a charitable trust for the causes we believe in. Through equity investments, it is possible for us to achieve return rates that exceed withdrawal rates, so that wealth accumulated are not totally depleted during our retirement.
- **Protect against inflation eroding our wealth** – Inflation reduces the real purchasing power of our wealth in the future. This result in increased withdrawals and reduction in wealth, or lowered standards of living. Through equity investments, it is possible for us to earn returns higher than inflation to offset its impact.

If we should allocate part of our portfolio to equity, then how much? This question can be determined by factors such as age, amount of income needed during retirement, amount of existing wealth, and risk tolerance (degree of volatility). Regardless of return objectives and risk tolerance, we should ensure diversification in the retirement portfolio by spreading assets among different asset classes to achieve a reduction in overall portfolio risk.

Creating a retirement portfolio is a journey, not a destination. With changes in expenses and investment performance, we need to re-assess the retirement portfolio and determine if the investments still fit our circumstances. Through our suite of services at PMA, we hope to contribute to the growth of your retirement portfolios, whether through our equity-oriented accounts or our multi-asset classes, globally diversified accounts.