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By **Robert Powell**, MarketWatch

**BOSTON (MarketWatch)** — Fewer stocks, more annuities. That, in essence, is the advice gleaned from two just-published reports for the benefit of those living in or approaching retirement.

Retirees should invest just 5% to 25% of their portfolios in stocks, or at least that's the case for those whose primary goal is to minimize the risk of running out of money and sustaining their withdrawals, said one report published by Putnam Investments new think tank.



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And, Americans can avoid the risk of outliving their assets by saving more, working longer, investing wisely, delaying Social Security and buying a life annuity, according to the Government Accountability Office (GAO).  
 For his part, W. Van Harlow, Ph.D., CFA charterholder and director of research at the Putnam Institute, is suggesting a conservative asset mix largely because of what he views as the greatest risk to a retiree's portfolio: the unfavorable "sequence of returns" in the securities' markets. That's a fancy way of saying retirees who have too much money in equities face the very risk that the stock market will keep falling at the very same time they are withdrawing money for their accounts. And that doing so increases the odds that they will outlive their money or, more likely, reduce their withdrawals and presumably their standard of living. (By the way, many retirees experienced this risk firsthand from 2000-2009. So it's not one of those risks that people talk about, but never have to face in reality.)

In an interview, Harlow noted that once a retiree starts taking money from their retirement accounts, the withdrawals become "path dependent." And if the success of a retirement income plan rests on whether the markets go up or down, one has to figure out how to protect oneself against that volatility, and especially against the risk of unfavorable

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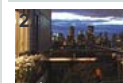
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"sequence of returns." And the best way to do that is by reducing one's overall exposure to equity to no more than 25%, he said.

Harlow also took issue with many life-cycle, or so-called target-date, mutual funds in the marketplace today, suggesting that many have far too much invested in equities. "The higher equity allocations used in many popular retirement investment products today significantly underestimate the risks that these higher-volatility portfolios pose to the sustainability of retirees' savings and to the incomes they depend on," he said in a release. His advice to retirees who own or plan to buy a target-date fund is to check the asset allocation of those funds.

By way of background, we should note that very few retirees and would-be retirees own just one mutual fund which also happens to be a life-cycle or target-date fund. In fact, investors saving for retirement in a 401(k) often own many funds, one of which might be a life-cycle fund. The research does suggest, however, that would-be retirees do face the risk of unfavorable sequence of returns given their mix of assets in their retirement accounts. On average, according to a recent Investment Company Institute report, 401(k) plan participants in their 60s have about 50% of their money in equities, spread among a mix of stock, life-cycle and balanced mutual funds, as well as company stock. What isn't so well known, though, is the percent that represents of a retiree's or would-be retiree's total portfolio, or what it might represent if you factored in the net present value of, say, a defined benefit plan, or Social Security, or the net present value of any earnings a retiree might generate. In other words, that 50% might be just 5% of a total portfolio or it might be 75%. So, using Putnam's research as your guide, any overall portfolio where the percent allocated to stocks greater than 25% would be subject to the risk of unfavorable sequence of returns. [Read Putnam Institute's report, "Optimal Asset Allocation in Retirement: A Downside Risk Perspective," here.](#)

Meanwhile, the 79-page GAO report, which was undertaken by at the request of Sen. Herb Kohl, D-Wisc., the chairman of the Special Senate Committee on Aging, details how Americans can avoid the risk of outliving their savings.

In the study, the GAO found that while most retirees rely primarily on Social Security, most Americans fail to maximize their benefits. An estimated 72.8% took benefits before age 65, and only 14.1% took benefits the month they reached full retirement age. By taking the benefits on or before their 63rd birthday, nearly half — 49.5% — passed up at least 25% to 33% in additional monthly inflation-adjusted benefits that would have been available had they waited until full retirement age, the GAO said.

Overall, the GAO found that experts recommended that retirees systematically draw down their savings and convert a portion of their savings into an income annuity to cover necessary expense or opt for the annuity provided by an employer-sponsored defined benefit pension instead of a lump-sum withdrawal.

The GAO also found that given the difficult economy and life expectancy increases, experts recommend that most workers, if possible, continue to work and save well beyond age 62.

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**Earthing** 2 hours ago +3 Votes



The only retirement plan that guarantees you won't outlive it is the posthumous retirement plan. This debt pyramid economy will collapse everything else.

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jsaba 2 hours ago

+1 Vote



stocks are biggest PONZI scheme out there

I say own 0% stocks, 0% bonds

let corporate thieves swim in own pond

IMT I do what I do and earn double digit returns safely where I can own 100% of investment

BTW the trend is your friend - and gold is still going up after 10 years - the real thing not stocks

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Roncat 1 hour ago

+5 Votes



This man is afraid of normal market risk with both equity and bonds but jumps after the more risky commodity ever created, gold. DuH??? What's up with the logic in that?

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InsideTraitor 1 hour ago

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I remember gold at \$800 an ounce, followed a few years later by \$299 an ounce. Don't trust the madness of the crowd. I did buy Gold Resources (GORO) at average \$2.50 share, now \$23/ sh. My thinking: whatever gold or silver does, it only effects the profit margin, not the enterprize value.

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XtraContrary 2 hours ago

+2 Votes



Most reports show the average investor is "out" of the stock market, so it shouldn't be an issue; the recent rise from 2008-2009 allowed some of them to cash out.

In terms of retirees not waiting but collected Social Security early - well, better for society and better for them. Many blue-collar and sales types probably have had it since age 59, leaving room for to the up-and-coming tattooed and nose-ring crowd. The elderly need to clear out for younger generations, unless qualified and experienced enough to pass on some wisdom.

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Roncat 1 hour ago

+3 Votes



Why don't you clear out? I suggest we require all those who say such things report to an extermination center. I'll even pay for your cab ride to get there, XtraContrary!

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Dickknowsbeer 2 hours ago

+4 Votes



Hi, I'm from the government and I want to help you plan for retirement. You might as well get your financial planning from a Hobo. And who sits on these committees? Probably life annuity salespersons.

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Roncat 1 hour ago

+4 Votes



The government, through Social Security, has done more good for retirees than just about any corporation or bank has done. Quit attacking the government. Youi don't know what your talking about. You're just parroting what some rich Republican told you to say.

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InsideTraitor 1 hour ago

+3 Votes



This is a sales piece. The info is no different than 20 years ago. Putnam wants back into those annuity portfolios it got kicked out of for late trading and using 900% turnover to generate



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trading commissions to rebate the insurance companies. Just before Putnam screwed investors with booby trapped funds...the "articles" recommending Putnam festered in "consumer" magazines....followed by Putnam ad revenue. Has it not occurred to you folks that Marketwatch articles are now just covert advertising advertising?

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**busyone23** 1 hour ago

+2 Votes

We'd like to introduce a popular new Republican/Teaparty retirement plan. Eliminate benefits for workers, export jobs, technology and factories to cheap communist labor, allow medical insurance prices to skyrocket so that nobody can afford it.

Work without pensions or benefits, then die.

No need for retirement!

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**swanone** 1 hour ago

0 Votes

The market is a sorry place for your funds. Buy rental properties and earn income that way.

At best you will still own a asset ...stock decline and lose value. Bonds if AAA or AA are okay for income if they are muni's. But if your in the market you are throwing your monies to the sharks!

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**johel** 48 minutes ago

+1 Vote

Retired three years ago, after having put a large amount of my money in CDs and corporate notes, which resulted in almost no loss during the recent depression. Now about 50% in dividend-paying stocks and 50% in corporate notes. Nice income, and I don't worry about what could possibly happen.

Annuities are something I MIGHT get when I'm much older and when the interest rates are higher. If the interest rate doesn't go up, no annuities for me.

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**fallline** 15 minutes ago

0 Votes

I agree. Locking in an interest rate right now is plain nuts!

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**NoComment** 45 minutes ago

0 Votes

How can one depend on an annuity which claims it is "guaranteed"? If you're in your 20's and 30's it's a great idea to invest. Once you pass the half century it's time to open the parachute and glide. The "advice" in this column is older than me. I never heard in my youth of anybody staying in the market once they retired. The only exception is for the very wealthy whose assets are tied up in the very corporations which made them rich to begin with. It's not like you're going to land a job when you're 75. Unless you're a lifetime bureaucrat waiting for a cabinet level job to open!

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**FayeRaye** 43 minutes ago

0 Votes

I like the option of being able to purchase an annuity with at least part of a 401k balance when one retires. Larger plans usually can get discounts in the fees on those type of products than one could get on their own in the retail market.

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**dhugh** 40 minutes ago

0 Votes

The last place that I would go to get advice on investing and retirement planning is the GAO. Next to the last place I would go is Putnam. And to throw in for good measure we are given advice from Prudential. Guess what they sell.

Taking social security benefits early is a calculation based on life expectancy and income need. It generally takes about 14 years to reach break even if one waits until full retirement age versus starting at age 62.

Annuities generally have a heavy expense load. Guarantees cost.

All of this is to say that each person should become informed themselves or seek help

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in retirement planning. This article seems to be the usual scare tactic used to sell annuities.

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**blcllc** 24 minutes ago

+1 Vote



Nice fantasy..to be out of the stock market. My parents had bank cds in the Jimmy Carter era.. God bless inflation. But today where does one get a return other than in risk assets? 75% of a portfolio in bonds doesn't make any sense with low yields and the potential for long term inflation. So ultimately the advice is to just keep working until you drop or things get a lot better. Sure. A significant reason most people retire at 62 is because they are directly or tacitly forced out . Outside of Congress, who hires and promotes the aged?

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**fallline** 13 minutes ago

0 Votes



Spot on!

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**Equivalence** 17 minutes ago

0 Votes



I would rather hold gold than any annuity. As long as there is inflation, gold will most likely continue to rise.

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**jebailes** 9 minutes ago

0 Votes



I am amazed: We're supposed to listen to Putnam investments a company that was totally caught with its hands in the till front running and the government who refused regulatory oversight of the bank, investments banks and brokerages. Now we buy high margin insurance products from the same companies who lobby the government and own the mutual funds? LOL

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