Living in retirement

The risks of not investing

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While we know there are risks in investing, are there risks in not investing? Whether it's trying to sit out a market decline or holding too much of your portfolio in cash, investors in retirement run the risk of not achieving their long-term goals. Ultimately, it's important to remember why you're investing and to understand the risks of not investing.

Reason for investing

- Provide income (and income growth) in retirement

Potential risks of not investing

- Not keeping up with inflation
- Outliving your money

Growth still matters

You don't just need investments to get you to retirement — they need to get you through retirement. Your investment focus may shift toward providing for current income needs, but growth still matters because of inflation. The odds of an all-cash portfolio lasting more than 25 years are less than 1%, assuming an initial 4% withdrawal rate and a 3% increase in withdrawals each year for inflation.

In contrast, for a 50% stocks/50% fixed-income portfolio, those odds increase to more than 80%. Help make your money last by being flexible with your spending and withdrawals, and by including items such as insurance and annuities — but not by moving everything to cash.

Likelihood of money lasting — 4% initial withdrawal rate increased for inflation		
Portfolio allocation	**>25 years**	**>30 years**
50% stocks/49% bonds/1% cash	≈ 85%	≈ 60%
100% cash	< 1%	< 1%

Source: Edward Jones estimates. Results using a Monte Carlo simulation, where portfolio is rebalanced annually and withdrawals increased by 3% per year for inflation. The diversified portfolio includes cash (1%), U.S. investment-grade bonds (39%), U.S. high-yield bonds (10%), U.S. large cap stocks (33%), and international large cap stocks (17%). Expected returns based on long-term capital market expectations for cash of 2.9%, U.S. bonds of 3.6% to 6.0%, U.S. large cap stocks of 6.8%, and international large cap stocks of 7.6%. We also assume an annual fee of 1%. This hypothetical example is for illustrative purposes only and does not reflect the performance of a specific investment.

Inflation doesn't retire

Retirement could last 25 years or more, and assuming a 3% inflation rate means your expenses could more than double during that time.

The impact of inflation	1999	2024	2049 (est.)
Car	$19,500	$27,500	$40,000
Tank of gas (17 gallons)	$20	$50	$190
Month of groceries	$400	$750	$1,400
Annual health care	$2,500	$8,500	$25,000

Source: Bureau of Labor Statistics, Kelley Blue Book and U.S. Department of Agriculture. The inflation rate used to calculate 2049 prices is the average annual inflation during 1999–2024: Car = 1.5%, Gas = 5%, Groceries = 2.5% and Health care = 4.5%. Car: MSRP for automatic transmission Toyota Camry, Gas: National average for unleaded regular gasoline, and Groceries: Family of two with moderate cost plan. Health care: 1997, 2022 and 2047 data. Median household expenditure for married couple. Values rounded to the nearest $10, $50 and $500, as appropriate..

Actions for investors

So, what should you do? Remember that even though you can't control the market, you can control your investment strategy. This means there are quite a few actions you can take.

Plan for a long life: Our scenarios highlight a 25-year time frame, but is this realistic? The quick answer is yes. A 65-year-old couple has about a 60% chance that at least one spouse will reach age 90.* That's 20 to 30 years in retirement, on average. One of the best ways to help ensure your money lasts as long as you need it is to plan on living longer than you think.

Maintain your balance: While growth is still important in retirement, short-term market declines — especially early in retirement — can pose a serious risk to your retirement strategy. Having too much in stocks and growth investments can be just as risky a strategy as having too little. Consequently, it's important to have balance in your portfolio — growth investments to provide for your long-term income many years from now, with an allocation to fixed income and cash to provide for your near-term income needs and help hedge against potential market declines.

Use cash appropriately: Cash can be a valuable asset, but it should be used appropriately. Cash should provide for your current income needs as well as help provide a source of ready money during market declines. After factoring in outside sources of income such as Social Security, we recommend having cash to cover at least a year's worth of current expenses, plus three to five years' worth of expenses in a short-term fixed-income ladder. This cash can provide for your current expenses as well as help ensure your short-term needs are covered in the event of a market decline. That way, you aren't selling long-term investments when they're down in value. Instead, you are providing them with an opportunity to recover.

Don't reach for yield — invest for rising income: It may be tempting to look for the investments offering the highest dividend or interest rate. But there is no free lunch — generally, the higher the rate, the higher the risk of the investment. Instead of chasing the highest-yielding investment, we prefer companies that have a track record of growing their dividends over time. These investments have the potential for rising income over time to help protect your spending power from inflation.

Remember why you're investing

Regardless of market fluctuations, it's important to remember why you're investing — to reach a financial goal. And if living comfortably in retirement is that goal, the bottom line is one word: income. Although investing poses risks, such as the risk of declines, not investing also can be a risk to your financial future. The key is finding balance — not too much investment risk, while ensuring you have enough growth potential to reach your long-term goals. Talk to your financial advisor today to ensure your strategy is best positioned to help you reach your goals.

*Society of Actuaries RP-2006 Mortality Table projected to 2021 using Society of Actuaries Mortality Improvement Scale MP-2021

Investors should understand the risks involved of owning investments, including interest rate risk, credit risk and market risk. The value of investments fluctuates, and investors can lose some or all of their principal.

