The value of investments can fall. Investors may not get back the amount invested.
Income from investments may vary and is not guaranteed.

BNY INVESTMENTS
RETIREMENT GUIDE

Getting your investment portfolio ready for retirement

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Getting your investment portfolio ready for retirement

If you are investing in **shares**, **bonds** and other **assets** over the long term, it is important to keep your **portfolio** under review to ensure it is on course to meet your financial needs.

As well as monitoring ongoing gains (or losses), you should assess the level of overall risk in your portfolio – especially if you are saving for your old age. Generally speaking, the further away you are from retirement, the more risk you can afford to take on. This is because your investments will have longer to recover from any short-term losses or swings in value.

As your planned retirement date approaches, you might consider reducing risk. For example, by reducing the proportion of **equities** (company shares) in your portfolio and increasing the proportion of bonds and even cash. If your investments have a lower level of overall risk, there is less chance they will suffer sharp losses just before you need to draw upon them.

However, the changes in the way many people use their pension savings to generate retirement income, which were introduced as part of the UK government's pension freedoms in 2015, mean that you may wish to maintain a moderate level of risk. In particular, if you plan to leave a significant proportion of your portfolio invested after you retire.

The appropriate level of risk in any investment portfolio is dependent on each individual's own personal and financial circumstances.

If you are unsure what level of risk is right for your needs, it is worth speaking to a financial adviser.

Long-term investing and risk

Your attitude to investment risk – and how much of it you are willing to take – depends on a number of factors.

These include what proportion of your overall wealth the investment represents, as well as how confident you feel about investing in general. The timeframe of an investment also plays a very important role. Typically, the longer you are planning to hold an investment, the more risk you can bear.

This is because longer-term holdings are better able to ride out any short-term rises and falls in value. In general, when people in their twenties and thirties start saving for old age, they are encouraged to invest with greater risk. For example by holding a larger proportion of their portfolios in equities, in particular those issued by companies with the potential for greater long-term growth.

Over time, it is important to keep your investment portfolio under review to ensure it has the right level of risk. It is possible your portfolio may become riskier over time. For example, if the higher-risk shares you hold increase significantly in value, and therefore make up a larger percentage of your overall investments. And your own attitude to risk could change. You may be willing to take on more risk following substantial salary increases or after receiving an inheritance. However, it is more likely that your capacity for taking risk will decline over time, as we explain below.

Retirement income options

When people with personal or defined contribution pensions reach retirement, they have to decide how to use their savings to produce an income.

The income generated by personal and defined contribution pensions in retirement depends on long-term investment performance and the amount of money saved into them. (Defined benefit pensions, also known as final salary pensions, pay a guaranteed income, and it is up to the providers of such pensions to manage risk appropriately. As such, they are not covered in this guide.)

Until relatively recently, most people bought a lifetime annuity when they retired. This is an insurance product that generates a guaranteed monthly income for the rest of the customer's life. This annuity purchase was a one-off event usually timed to coincide with the start of retirement.

However, since 2015, savers in the UK have had more freedom to choose how to use their retirement savings to fund retirement. It is now significantly easier to leave a pension invested while making regular withdrawals.

By staying invested, individuals can potentially benefit from ongoing investment growth long into retirement. Although, this is not guaranteed, as the value of investments can fall as well as rise. The **capital** and income generated by investments may need to increase during retirement to offset the potential long-term impact of inflation. This could mean taking more risk by maintaining exposure to equities.

Approaching retirement: how to manage risk

If you plan to start taking pension income in the next few years, you should think about the level of risk in your portfolio. By reducing risk, you can lower – but not eliminate – the likelihood that your investments could suffer a sharp fall in value just before you start to take an income.

This is especially important if you are planning to use most or all of your pension to buy an annuity. Although, you should also think about risk if you are intending to remain invested while making regular withdrawals from your pension.

A number of pension scheme providers automatically reduce the level of risk in portfolios as customers approach their retirement age – a process sometimes known as lifestyling. This is typically done by reducing the proportion of the portfolio that is invested in equities, and increasing holdings of **corporate** and **government bonds**, as well as cash. In the past, the investment performance of bonds and cash has tended to be less volatile than that of equities.

If you do not plan to buy an annuity when you retire, you could take a slightly different approach. As you are planning to remain invested for years and perhaps even decades to come, it may be appropriate to maintain a higher level of risk to give yourself a better chance of medium- to long-term growth. At the same time, you might choose investments that are more likely to produce an income.

For example, equity income funds focus on investing in shares issued by companies that are expected to pay regular income to shareholders in the form of **dividends**. Such companies are typically well-established businesses in **sectors** such as banking, insurance and energy. The performance of income stocks has historically tended to be less volatile than that of shares in high-growth businesses. More importantly, if the income they generate can meet all or most of your income needs in retirement, it is likely you will not have to sell shares to generate income.

This has the advantage that your capital remains available to support future income payments and you are not forced to sell shares when stock market prices may be depressed. Bear in mind, though, that there is no guarantee that dividends will continue to be paid. However, by using a fund to invest across a range of different companies, you can reduce the risk that a cut in a company's dividends has a significant impact on your overall income.

Striking the right balance between investment risk and reward in retirement is not easy, and it is impossible to accurately predict future market movements. If you are unsure about what strategy to employ, you may benefit from talking to a financial adviser.

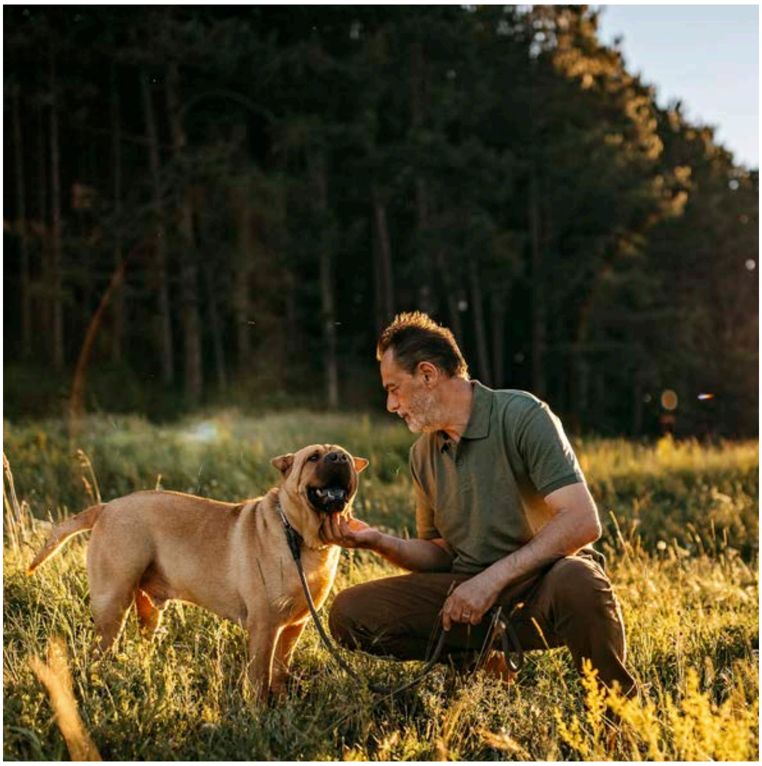
Later in retirement

Many people choose to use the **drawdown** or regular withdrawal method in the early part of retirement before buying an annuity later on. This can reduce the chances of running out of money.

If you are thinking about such an approach, you may wish to reduce the risk in your pension investments in the run-up to making the annuity purchase.

If you have decided to stay invested, it is important to keep the performance of your portfolio, as well as its risk level, under regular review. You could potentially run out of money if you live longer than expected; if your investments fall in value or do not grow as quickly as expected; or if you take too high a level of income, especially in the early years of retirement.

Determining the right course of action isn't always simple, so consulting a financial adviser could be beneficial.



Glossary

Asset(s): In this context, investments held in a portfolio, for example shares, bonds, property and cash.

Bond(s): A loan of money by an investor to a company or government for a stated period of time in exchange for a fixed interest rate payment and the repayment of the initial amount at its conclusion.

Capital: Resources or money used or available for use in the production of more wealth.

Corporate bonds: A loan made to a company for a fixed period by an investor, for which they receive a defined return.

Dividend(s): A sum paid regularly by a company to its investors as a reward for holding their shares.

Drawdown: In pension planning, drawdown refers to the option of taking income from a pension pot while keeping the remaining funds invested.

Equity/Equities: Shares issued by a company, representing an ownership interest.

Government bonds: A loan of money by an investor to a government for a stated period of time in exchange for a (generally) fixed rate of interest and the repayment of the initial amount at its conclusion.

Portfolio: A collection of investments.

Sectors: An area of the economy in which businesses share the same or related business activity, product, or service.

Share(s): Also known as equity, is a security representing the ownership of a fraction of a company listed on the stock market.

Doc ID: 2576500 Expires: July 18, 2026. T13417 07/25