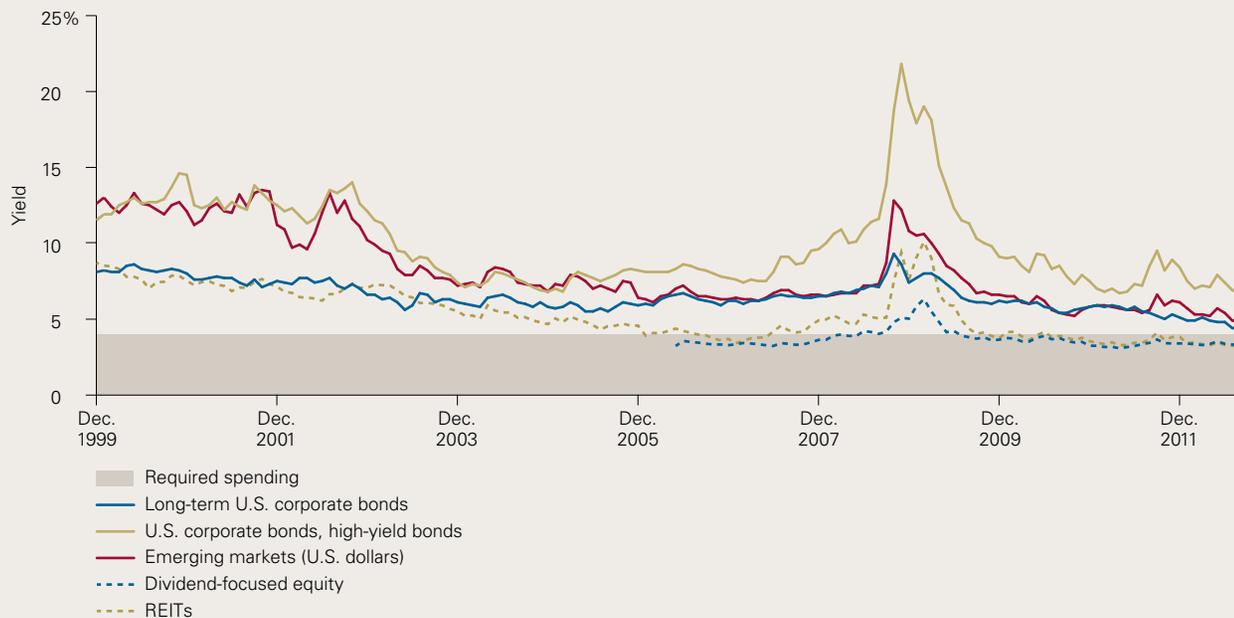


Understanding retirement income in a low-yield environment

Attractive yields found in riskier market segments (December 1, 1999–September 30, 2012)



Sources: Thomson Reuters Datastream and Barclays. Asset classes were represented by the following: Barclays Long U.S. Corporate Index, Barclays U.S. Corporate High-Yield Index, Barclays Emerging Markets World All Series Index, MSCI US Investable High Dividend Yield Index, and FTSE NAREIT All Equity REITs Index.

- For the majority of 20th-century retirees, cash flows from a balanced stock/bond portfolio would have been enough to fund a spending rate of 4% of the portfolio. But this approach has become much harder to achieve in current markets.
- As the chart to the left shows, yields for riskier market segments have been attractive and continue to exceed the 4% spending target. This has led to an increased cash flow in these riskier segments of the market such as high-yield bonds or dividend-paying stocks.
- But keep in mind that concentrating your assets in higher-yielding investments can lead to increased risk and volatility. These income-only strategies can be damaging to your portfolio's overall health.
- If your portfolio's income is not enough to meet spending needs, your advisor may suggest filling the spending gap from your portfolio's capital appreciation.

(continued on reverse)

Navigating retirement income challenges

Strategy	Impact
Overweight high-yield bonds and/or underweight Treasury bonds.	Increases the portfolio's credit risk and heightens the overall volatility of the portfolio.
Overweight longer-term bonds (extend duration).	Increases the portfolio's exposure to interest rate risk.
Shift within the equity portfolio to overweight dividend-paying stocks.	Increases exposure to certain sectors.
Shift a portion of the bond portfolio to dividend-focused equities.	Increases portfolio's overall volatility and risk of loss.

Source: Vanguard.

- To meet the 4% spending threshold in today's environment, many retirees are reluctant to tap principal to meet their retirement income needs. Instead, many seem to be concentrating their assets in higher-yielding investments.
- As the table on the left shows, when you shift away from a market-cap-weighted portfolio, each overweight comes with added risk, and all may increase volatility.
- Consider a total-return approach, which focuses on diversified portfolios that take into account both components of total return, income plus capital appreciation.
- The total-return approach can increase a portfolio's longevity while allowing a more tax-efficient distribution of your assets across taxable and tax-advantaged accounts.
- Talk with your advisor to learn more. By moving away from an income-only approach, you may find yourself in a better position to meet your retirement needs with less risk and potentially better tax efficiency.

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All investing is subject to risk, including the possible loss of the money you invest. Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer's ability to make payments. High-yield bonds generally have medium- and lower-range credit quality ratings and are therefore subject to a higher level of credit risk than bonds with higher credit quality ratings. Stocks of companies based in emerging markets are subject to national and regional political and economic risks and to the risk of currency fluctuations. These risks are especially high in emerging markets. Diversification does not ensure a profit or protect against a loss.



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