Reaching Your Shared Savings Goals: How to Make Your Household Financially Diversified

Reviewing your portfolio as a household can help reveal unintended overlap and ensure that you're on track.

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KEY INSIGHTS

- Discussing your financial goals as a couple can help ensure that your financial plan works for both of you.
- Your financial plan can incorporate different risk tolerances and time horizons as necessary.
- Reviewing your portfolio for unintended overlap can help maintain appropriate diversification.

While you may make individual choices about your retirement savings contributions, asset allocation, and account types, it's important to consider your overall investment approach—and level of diversification—as a couple. A well-diversified portfolio can help ensure that your assets are invested appropriately for your financial goals.

Evaluating your assets as a household can help reveal an unintended overlap of investments. It can also increase the likelihood of achieving your shared financial goals and ensuring that your savings will last through retirement. Having both partners involved in planning, as well as contributing to savings, helps everyone feel confident in the pursuit of financial success.

A shared vision—and a shared plan

Take time to discuss the details of your financial future as a couple. Individuals often have their own intentions in mind for retirement, but they don't necessarily communicate it to their spouse. You need to make sure you and your spouse share a vision and agree to compromises as necessary.

As you discuss your long-term plans with your spouse—along with how much income you may need in retirement—keep in mind that there is a good chance that at least one of you will live into your 90s. For a 65-year-old couple in average health, there is a 50% chance that at least one spouse will live to age 92.* Even if you and your spouse have different time horizons for your respective goals, the key is to determine when you will need to start drawing on your retirement savings for

*Society of Actuaries Longevity Calculator (longevityillustrator.org). Calculation assumes a man and woman born 3/1/1958, nonsmoking, and in average health.

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income and how long you may need your savings to last.

Analyze your asset allocation

With time horizons in mind, you can determine an appropriate asset allocation target both as individuals and as a household. Remember that the closer you get to retirement, the more you'll want to add bond investments to your portfolio if it is stock heavy. (For more information on asset allocation models by age, visit **troweprice.com/allocationplanning**.)

You may find that you can set a compromise allocation target that works for you both. For instance, if you and your spouse are both age 50 and you expect to retire at age 65, you might consider a target allocation for your household of between 65% and 85% of your retirement savings in equities along with 15% to 35% invested in bonds. If you are different ages or plan to retire at different times, those facts should affect the allocation you choose.

Since your overall allocation should reflect your shared goals, one approach is for both spouses to use similar asset allocations. Alternatively, you could set different allocation targets for your various accounts to better reflect your individual risk tolerances. A benefit of each partner being comfortable with the risk in his or her own accounts is that they are less likely to stray from the plan in times of volatility. You could also consider using the more risk-averse partner's accounts to hold an appropriate cash cushion approaching retirement.

Keep in mind that the goal is to ensure that one spouse's portfolio allocation choices are not working at cross-purposes to the other spouse's choices. Agreeing to complement each other with different allocations is one thing. Independently setting radically different allocations could result in portfolios that don't work well together.

For instance, an account with an aggressive allocation to small-cap

THE IMPORTANCE OF DIVERSIFICATION

Exposure to different areas of the economy can help increase your portfolio's level of diversification.

Diversification can help manage risk in your portfolio by avoiding a concentrated exposure to a single asset class or subset of the economy. Building a diversified portfolio is about more than finding an appropriate balance among stocks, bonds, and short-term investments, however. Your portfolio needs varied exposure within each major asset class as well.

Diversify across stock investments by:

- Market capitalization (e.g., small- and large-cap)
- Sectors and industries
- Regions of the world
- Investment styles (e.g., growth and value)

When it comes to bond investments, vary your:

- Credit qualities
- Regions of the world
- Types of issuers (U.S. and international, government and corporate)

Diversification cannot assure a profit or protect against loss in a declining market.

stock mutual funds might seem appropriately balanced when combined with an account that is invested very conservatively in bond funds. However, this approach could leave the overall portfolio with too little exposure to important moderate risk categories.

Diversify and look for hidden concentrations

As part of the process of checking that your retirement accounts are properly allocated between stock and bond mutual funds, consider whether you are both unintentionally heavily invested in the same underlying investments. This exercise is particularly important if you have large holdings in individual stocks themselves, perhaps due to company stock holdings in an employer-based retirement plan. When you look at your overlap and concentrations, a rule of thumb might be to make sure you're not holding any more than 5% to 10% of your portfolio in any particular company, in which case underperformance could have a large impact on your retirement savings as a household. (See "The Importance of Diversification.")

Fortunately, there are tools, such as Morningstar Portfolio X-Ray®, that allow investors to analyze their portfolios for this potential overlap. This analysis can help determine whether you and your spouse are overexposed to a specific company, sector, region, or even investment style, such as growth or value investing. (See "Identifying Fund Overlap.")

This review process can also help you identify whether you are invested in more mutual funds than necessary. For instance, investing in several funds that target a specific sub-asset type, such as large-cap stocks, may not provide additional diversification benefits.

Consider streamlining your holdings across your various accounts so that you hold only what you need to ensure adequate diversification; doing so can help you manage your portfolio more easily over time.

IDENTIFYING FUND OVERLAP

An online tool can make it easier to gauge overlap in your investment portfolios.

One potentially useful tool for identifying overlap is Morningstar Portfolio X-Ray®. After entering the ticker symbols for each mutual fund and U.S.-based stock you hold, as well as cash and bond positions, you'll receive a breakdown of the underlying holdings based on various factors, including size (e.g., small-, mid-, and large-cap) and various strategies (such as growth and value). Morningstar Portfolio X-Ray® includes diversification across industries, stock types, and even global regions. Review the output to look for any areas that are overly concentrated or for any gaps in exposure. Doing so can help you determine if you are exposed to any unexpected risks.

To access Portfolio X-Ray, navigate to Morningstar Portfolio Manager®, which is available on the T. Rowe Price website when you sign in to your account at troweprice.com/morningstarportfoliomanager. Once you're logged in, click on the "X-Ray" tab to track and analyze your portfolio.

If you identify imbalances in asset allocation, overlap in your own portfolio, or overlap between your portfolio and that of your spouse, pare back some of your concentrated holdings.

Having multiple accounts can give you more flexibility when taking withdrawals in retirement; at the same time, duplicative investment holdings could cause unnecessary complexity.

What to do next

If you identify imbalances in asset allocation, overlap in your own portfolio, or overlap between your portfolio and that of your spouse, pare back some of your concentrated holdings. You can invest the proceeds in an area where your combined portfolios have less exposure. Just be sure to keep the tax implications of these moves in mind. If there is a way to meet your goals by making changes and adjustments to your allocations in the tax-advantaged accounts, that might be a better approach than realizing a large gain in a taxable account.

Going forward, the process of maintaining an allocation and a level of diversification that meet your needs as a couple will require ongoing review. While a deep dive into the plan is only necessary periodically—perhaps every few years—it is valuable to review your overall allocation each year.

Moving forward together

Of course, you'll want to carry this collaborative effort beyond the question of diversification to ensure that your broader financial plan reflects your combined goals. For instance, take the time to review your contribution rates as a couple, especially to make sure you're maximizing company contributions from all employers. As retirement approaches, develop a joint retirement income plan that reflects both of your needs. This plan should include strategies to make the most of your Social Security benefits as a couple. By discussing your combined vision and working together to achieve it, you can strengthen both your future and your financial confidence.

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