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Retiring into a Shaky Market? Think Long-Term Anyway

As we transition into the month of September, there are many other transitions occurring at this time of year: students going back to school, leaves changing color, and for some, packing up their home office before beginning retirement. Stay tuned this month as we continue to discuss strategies to help you Plan Well. Invest Well. Live Well.™ your way into retirement.

If you have recently entered or are on the cusp of retirement, it's hard to tune out the stock market's recent volatility. Many investors who are still saving can safely ignore the headlines, turn off the television and go on with their lives.

Some, especially new retirees, may feel they're in a more precarious position. But by maintaining a healthy dose of asset allocation, risk tolerance, and confidence, they may realize the opportunities that lay ahead of them.

Asset allocation can protect your money

If your money is evenly split among stocks and bonds — which is often the case for retired people — then it already has a built-in cushion. That's not to say timing doesn't matter. It does — and big losses now are the hardest to overcome for people who are in the early stages of their retirement.

"The first couple of years of retirement, those are the years where we don't really want to suffer tremendous losses that we have to sell out of," said Jamie Hopkins, director of retirement research at Carson Group, a wealth management firm in Omaha, Nebraska. "That is your biggest risk period, from an investment standpoint, when you should probably have the most conservative portfolio."

Many — but not all — investors hew to that advice, particularly those in target-date funds, whose mix of investments gradually become more conservative as you approach a specific date.

But some retirement experts have found that an even more conservative mixture at retirement may be ideal. What they suggest may seem counterintuitive but underscores the long game that is the stock market: instead of maintaining that lower allocation to stocks, they suggest you gradually increase it as you age.

Certainly, such a strategy could backfire, especially if you have trouble sticking with it. But becoming too conservative introduces another set of risks: maybe the money won't last as long as you do, or it won't grow enough to offset inflation. For Americans who are 65 now, the average life expectancy is 84.4 years, according to the Centers for Disease Control and Prevention. There's also a strong chance those Americans will live into their 90s. That longevity calls for a decent helping of stocks.

So what do I do?

If you haven't retired yet, there are some simple ways to give your portfolio some breathing room. Working a little longer, even part time, is effective when that's possible. And if you're able to postpone collecting Social Security or Old Age Benefits that's another way to guarantee a higher paycheck in retirement over the long run.

If you recently retired, what's your next best step? First, consider what your portfolio mix looks like now; the recent market mayhem may have brought your overall asset allocation to a more conservative place, and maybe it makes sense to maintain that for now. If you have a significant chunk of cash or another source of income outside your portfolio, experts suggest tapping that money in times of market turbulence instead of selling stocks.

Besides cash, investors with a whole life insurance policy — which typically includes a cash savings component that can be tapped — can potentially borrow from that pot of money, he said. (It is later repaid by being deducted when the death benefit is paid out.)

Other options you can consider

There are other adjustments you can make. The most obvious one plays into our base instincts: spend less during market downturns and spend a bit more when the market is doing well.

But if thinking about all of this causes too much anxiety, it may be worth considering whether an insurance product, like an annuity, can take some of the pressure off. Annuities come in a variety, but some of them can be incredibly complex. There are cheaper, more straightforward products, including single-premium immediate annuities. You pay an insurance company a pile of cash, and in return the company sends you a stream of income for the rest of your life. Or you can buy an income stream for a set period — say, 10 years.

Experts suggest figuring out what your fixed costs are — housing, food, taxes, other basics — and then buying enough of an income stream to cover the portion of expenses that government pensions do not.

That may not sound appealing. But David Blanchett, head of retirement research at Morningstar, suggested considering how much of an emotional burden an annuity could lift. “How is this affecting your happiness?” Blanchett said. “What kind of behavioral cost are you incurring? You can get rid of that if you delay government pensions or buy an annuity.”

And if you haven’t already considered paying for a dispassionate analysis of where you stand, now may be that time. But you need to be careful here, too. Find a certified financial planner - in times of uncertainty, some extra guidance could save you from a costly mistake.

Helping you secure your financial future

Whether you are planning for, approaching, or currently enjoying retirement, there are tips and strategies to help you maximize and protect your nest egg. This year hasn't gone according to plan, but you can live your best life despite the obstacles. Our Plan Well, Invest Well, Live Well process can help you prepare for the unexpected, and get back on track when it happens. Be sure to continue to check back throughout September as we discuss strategies and tips to help you achieve your retirement goals! For resources and additional information regarding COVID-19, visit our website www.whzwealth.com/covid19-resources. To receive information regarding financial advising, visit www.whzwealth.com, call us at 860-928-2341, or email us at info@whzwealth.com!

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