

RETIREMENT

Retirement Planning in 2020

Christopher Meeske

Head of Client Advisory Services (NY)

This has been a year marked by an almost unprecedented level of uncertainty about the future of the economy, the markets, and the direction that our businesses and our society will take after the COVID-19 pandemic has passed. One of the most frequent themes we've been discussing with our clients is their concerns about retirement in a recession.

Those who are nearing a long-planned retirement, or who have been in retirement for some years, face the prospect of meeting their income needs from a portfolio rocked by one of the sharpest market declines in living memory. Our advice has been guided by both new realities and the evergreen principles of prudent long-term retirement planning.

Today's Growth/Safety Dilemma

Designing a portfolio for retirement is about turning assets—investments and savings—into a stream of income designed to last a long time. Traditionally, many investors entering retirement relied on a mix of income-generating assets (bonds and dividend-paying stocks) and growth-oriented equities. As investors progressed in their retirement, their portfolios often tilted more heavily toward the income-producing assets. In broad strokes, that's still the case.

However, in 2020, investors must contend with rock-bottom interest rates: not far from 0%, even at intermediate maturities. Twenty years ago, a retiree could rely on a relatively conservative bond-heavy portfolio to pay 4% or more annually; today, the yield on a 10-year US Treasury is below 1%.

So now, most retirees will need their portfolios to grow more throughout their years of retirement to keep pace with inflation and potentially meet unexpected costs. This is more easily said than done: The diminished return from fixed-income securities forces investors into an unpalatable choice: take more risk in the stock market, with its potentially extreme volatility, or risk losing purchasing power over time from safer bonds. While there is no single answer to this conundrum, there are some key principles that can help retirees navigate a challenging environment.

A Quick Planning Guide

Anticipate Market Volatility.

While the uninterrupted bull market from 2009-2019 led many investors to grow comfortable with their stock portfolios, 2020 has been a sharp reminder that the stock market has the potential to turn negative, and more quickly than you expect. The best protection against the inevitable downturns is to maintain a comfortable allocation to bonds and assure liquidity via cash and short-term fixed income: Keeping one to three years of living expenses in liquid investments is a reasonable baseline for many. Once an investor has this reserve in place, he or she should be able to avoid selling stocks at a loss to meet current expenses when the market is bad.

Build a Portfolio with Multiple Sources of Return.

While there isn't anything radical about building a portfolio with a mix of stocks, bonds, and alternative investments to diversify risks, today's retirees need to think about their funds in new ways. They shouldn't be afraid to trim the principal of their equity investments after strong periods in the stock market. And when stocks turn south, retirees may need to accept relatively paltry returns on low-yielding fixed-income investments until stocks recover. While many retirees may initially hesitate to hold a significant position in riskier assets, they can afford to take that risk if they've established a stable foundation of liquid assets.

Keep Focused on Your Goals.

Finances in retirement are never a straight line; we've learned that by working with our clients over the years. While numbers and calculators can be helpful tools in retirement planning, ultimately your financial retirement plan needs to be based on your personal goals. And remember: The ups and downs of the markets matter only insofar as they have a direct impact on you and your family. We can work with you to help mitigate that risk.

Properly done, retirement planning acknowledges, and even embraces, the reality that the only constants are change and uncertainty. And so, planning is a process, and a conversation that evolves over the years, not a binder with charts and graphs that purport to forecast the future. Whether a portfolio earns 3% or 10% annually over the next five (or 10) years, if it serves your needs, weathers the bear markets that will come, and takes advantage of the recoveries, it has done its job.

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