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REACH

RETIRING IN A BEAR MARKET -- A SURVIVAL GUIDE

People who expect to retire soon may anticipate that the money they have saved in their employer-provided retirement plan combined with Social Security payments and other savings will be sufficient to cover their expenses in retirement. They may anticipate that what they earn on their retirement plan portfolio will replenish some or all of what they withdraw from the plan each year.

However, life does not always go according to plan. It can be helpful to consider the possibility that you may retire when the stock market suffers a serious downturn for a prolonged period.

What a Bear Market Can Do to Your Retirement Planning

As a simple example, let's assume that you have $500,000 in your retirement plan account and you plan to withdraw 5%, or $25,000, of your principal for the first year of retirement and then adjust that dollar amount in subsequent years to account for inflation. You have the money in your retirement plan account invested in a 50% stock and 50% bond mix.

What would happen if the stock market declined by 25% in the year you retired? A 25% decline in the 50% of your portfolio held in stocks would mean that your overall retirement plan portfolio would be worth only $437,500 (assuming the other 50% held its value). If you go ahead and make your planned annual 5% withdrawal that year, your portfolio would be worth $415,625 at the end of your first year of retirement.

If the bear market in stocks continues past that first year, the value of your retirement plan portfolio would decline further. Essentially, negative returns at the beginning of retirement when your portfolio is largest increase the likelihood of prematurely depleting your nest egg.

There are strategies that you can consider to blunt the impact of a bear market on your retirement savings and on your lifestyle in retirement. Here are some that may be helpful.

Reduce Your Spending

It may make sense to take less from your retirement account during the first few years of retirement than you initially planned. You may have to reevaluate your spending habits to determine if you can get by on less during the bear market.

Anticipate Volatility

The traditional approach to retirement planning encourages retirement investors to gradually reduce the percentage of their portfolio invested in stocks to protect against the risk of loss as they get older. To obtain better downside protection for your retirement portfolio in the early years of retirement, you might consider investing quite conservatively as retirement approaches and in the early years of retirement. You could then gradually increase the percentage of stocks in your portfolio so that your asset mix has more growth potential.

Use Other Resources to Meet Living Expenses

If you or a partner have a defined benefit pension plan, it may make sense to use those payments in combination with Social Security and cash savings to pay retirement expenses instead of taking withdrawals from your retirement plan during a bear market. Or you might consider working part-time to help cover your expenses until the stock market recovers.

Deciding on a retirement investing and withdrawal strategy can be difficult. A financial professional can offer practical and workable strategies that can help you enjoy the retirement you seek.

