Wednesday, November 11, 2020

Ask the Experts: Market Volatility and Retirement

Q: I am planning to retire next year. What should I be doing to prepare given uncertainties in the markets and economy?

Q: I am planning to retire next year. What should I be doing to prepare given uncertainties in the markets and economy?

A: Your question is understandable in light of current economic and market circumstances. In addition to the pandemic’s human and healthcare impacts, we will feel the economic fallout for years to come. But that doesn’t necessarily mean you have to rethink or postpone your retirement.

Much of what you should do has nothing to do with the pandemic or current market realities. If you have not worked with an advisor to create a plan for your retirement, do so. If you already have a plan, now is a good time to refresh it to make sure it provides the assurance you need to retire with confidence.

Here are a few recommendations as you enter your home stretch before ending career work:

- **Understand your income sources.** Social Security benefits provide a foundation for most Americans’ retirements. When do you plan to file for benefits? What benefits do you expect? Do you have other sources of income, such as a pension plan or rental real estate? While you may not be thinking about work during retirement, it’s a great way to stay engaged and keep you from dipping into your savings.
- **Get a handle on your expenses.** This can be tough. While you will spend less on some things during retirement, you will probably spend more on others. Less on dry cleaning, for example, and more on travel or entertainment. Paying off your mortgage or downsizing your home can also have a big impact on your expenses. Keep a log of expenses to get a sense of your current spending—and note items you think will increase, decrease, or go away altogether. This can provide a good starting point.
- **Assess your portfolio.** It’s important to remember that, even if you’re retiring in your 60s, you are still a long-term investor. You should plan for your portfolio to sustain your expenses (plus inflation) for 30 years—more if you have extra-long-lived family members. Your portfolio needs a growth element that is

balanced with more stable investments to moderate volatility. Make sure to use up-to-date capital market assumptions that reflect the low-interest-rate environment we expect for quite a while.
- **Run the numbers.** With an understanding of your income, expenses, and portfolio mix, you can validate your plan. Try a retirement calculator that uses Monte Carlo simulation. This kind of simulation incorporates a range of potential market conditions and provides a sense of best case, worst case, and expected outcomes. Tweak the inputs to come up with a plan that you can live with. You may decide to work a little longer to provide a bigger margin of safety—or to retire immediately if the numbers look good.
- **Stress test your plan.** While a Monte Carlo simulation incorporates a wide range of market conditions, you may find it comforting to further stress test your plan. What if the market falls 20 percent during your first year of retirement? What if you decide to spend more early in retirement? What if you run into a big healthcare expense? Exploring these possible scenarios can provide further confidence in your plan's durability.

It's important to realize that retirement is not a set-it-and-forget-it endeavor. Make your decision to retire based upon a thorough analysis that builds in a comfortable margin of error in case things don't play out as expected. Then, rerun your plan every three to five years or when something significant happens—like a big market move, selling your home, receiving an inheritance, or the death of your spouse.

Remember: Your goals and situation are unique, so make sure that you sit down with your financial, tax, and legal advisors to make sure that your plan is right for you.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948 or schedule an appointment with a retirement counselor today.