

Protecting Your Retirement: Income Strategies During Market Downturns

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Address the anxiety of market volatility in retirement by implementing strategies for predictable income, strategic portfolio management, and realistic longevity planning, ensuring financial stability and peace of mind.

By Sandra D. Adams

When we were younger investors and there was market volatility, it went unnoticed by us. When we were young, we weren't paying so much attention to the markets or to our investments (if we even had any). And if we did have investments and there was volatility, it didn't bother us all that much – it was a “buying opportunity” and, of course, we had LOTS of time for the market to come back, so no worries.

Now that many of us are close to or living in retirement and our years are much more limited (I know, speak for yourself, Sandy!), volatility is not so welcome. It makes many of us much more anxious, especially if we need to draw from our portfolios for income.

So, what are proactive steps retirees and older workers can take during stock market volatility?

1. If you are working, even if you're close to retirement, it still makes sense to **put away as much as possible for retirement**. That can be maximizing contributions to 401(k) and IRA accounts or setting aside as much savings as current cash flow allows. It feels counterintuitive to put money into a boat that seems to have a hole in it when the market continues to go down, but you are buying at low prices that should help multiply your returns in a future market recovery. And if you expect a normal life expectancy, you likely have a 25 – 30 year time horizon for that recovery.
 2. **Develop predictable sources of retirement income that will not be impacted if the stock market drops**. Use these “retirement paychecks” to cover basic income needs
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like housing, utilities, groceries, taxes and medical insurance premiums. Sources for your retirement paychecks can include Social Security (which has an inflation component), pensions (some of which have inflation components) and insurance-based products that can provide a lifetime payment. These paycheck options help protect against market risk and against longevity risk as most are lifetime income products.

3. Along the same vein, **in down or volatile markets, it is always prudent to pull back on non-essential expenditures** to avoid having to pull funds out of your investment portfolio at a bad time. Deferring larger purchases, projects, trips, etc., can help you navigate the volatile stock market more successfully (assuming you don't have the cash already set aside for those expenses).

4. **Allocate your investment portfolio using the “bucket” strategy.** To draw from your investment portfolio for basic income or extras in retirement, allocate your portfolio accordingly:

- Funds needed for income in the next 1 – 2 years should be kept liquid in interest bearing cash/cash equivalents.
- Funds needed for income 3 – 5 years out should be in intermediate-term fixed income solutions in a second bucket.
- Funds needed for income beyond 5 years should be invested in diversified stocks.

In a volatile market, you draw from your cash or fixed income/bond investments to meet income needs. Your riskier funds will still go down, but you won't make the situation worse by taking withdrawals that lock in the losses. When your stock funds have recovered, you can replenish your cash and bond buckets to be prepared for the next down markets. This is opposite of what we would normally do in a positive stock market, when you might draw from the stock portion of the portfolio to use profits from those investments when they are doing well.

5. **Don't underestimate your longevity or overestimate market volatility.**

According to a 2022 brief “How Well Do Retirees Assess the Risks They Face in Retirement?” (2016 Health and Retirement Study conducted by the University of Michigan, Wenliang Hou, former senior research economist from The Center for Retirement Research), data suggest that most seniors are susceptible to overestimating the volatility of the market and underestimating how long they will live.

Volatility in the stock market is nothing new. It happens often and for many reasons. That doesn't mean it's any more pleasant to deal with, especially if we are close to or in

retirement and relying on our hard-earned investments to provide us with much-needed retirement income. If we are aware that volatility can happen, and design our retirement income plan and portfolio accordingly, we can go a long way towards navigating an up-and-down market with success. And we help ourselves avoid a lot of anxiety that goes with facing a down market unprepared. Working with a professional financial adviser will help you get your plan in place.

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