

Stay Calm, But Nimble

By Wade Pfau, Steve Parrish and David Littell Thu, Mar 12, 2020

Three experts from The American College of Financial Services offer suggestions for managing retirement assets amid the most challenging market environment since 2008.



For retirement income planning in this chaos, the years before you retire should be the key consideration:

If you're at or near retirement, "selling out" of the market is going to make the "sequence of return" issue a reality rather than a mere risk. Still, these market moves can be a wake-up call to put a strategy in place to make sure it doesn't derail your retirement. (At left: Wade Pfau.)

If you're years away from retirement, and have the stomach for it, there are some opportunities for loss harvesting and discounted stock buying. (Just remember that you could also be taking a bad thing and making it worse.)

We've been financial services witnesses to all the U.S. financial crises beginning with the near-hyperinflation of the early 1980s. These are the lessons we learned:

- No two situations have been the same.
- This one's been a somewhat predictable disturbance to the supply chain; the 2008 crisis was more related to a liquidity crunch.
- The "dot.com bubble" was consumer overconfidence followed a correction scenario. So, the exit out of this situation may be very different from the past.

What the financial crises of the past had in common was the tendency of too many people to sell low and buy high. A page from the financial playbook suggests not to do panic selling.

At the tactical level, there are opportunities in retirement planning:

- Be prudent about how much conservatism you want to bake into your approach. Given today's low interest rate environment, you'll need to save even more in bonds if you shift away from stocks.
- A simple rule to follow is to look at your portfolio balance on the date you retired, and whenever the current balance is less than that number, draw down from the buffer asset. Otherwise, you withdraw from your portfolio.

- Investors with a whole life insurance policy can also potentially borrow from the cash savings component of their plan, since it is later repaid by deductions when the death benefit is paid out.
- If you believe the market will correct, particularly if the current situation is hurting your income, now may be a great time to make conversions to Roth IRAs (and pay a lower tax).
- If you have the time and stomach for it, harvesting losses now with a reinvest in a correlated asset may work for you. It may give you a tax deduction without changing your economic position.

On the flip side of this, particularly if your income is temporarily down, realizing income may make sense. For example, surrendering some of the IRA that you were going to surrender next year anyway could work. If you own a business, collecting on receivables or selling appreciated inventory (especially if that inventory is in demand) might generate some lower-taxed income.

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