Retirement Strategies for Volatile Markets

Volatile and uncertain market conditions are particularly troublesome for those who have recently retired or are near retirement. The decisions made during this critical period can significantly determine whether savings will last throughout one's lifetime. Christine Fahlund, a senior financial planner at T. Rowe Price, says there are simple steps that can increase the odds of maintaining a desired lifestyle in retirement.

Those who have recently retired should resist the temptation to pull out of stocks when market conditions turn turbulent. Doing so eliminates the growth component of a portfolio and could increase the likelihood of running out of money from 20%–30% to more than 90%. Rather, recent retirees should consider cutting back on their expenditures temporarily for a few years. If decreasing expenditures is not possible, an alternative strategy would be to keep withdrawals unchanged for a few years. Both of these strategies would likely result in maintaining financial security throughout retirement.

Those near retirement should consider working a few more years. Doing so can enable losses within retirement savings accounts to be replenished. Fahlund says that "no single decision will improve potential retirement security as much as continuing to work even a few more years." Plus, by delaying retirement, near-retirees increase their future Social Security payments (by delaying up to age 70) and reduce the time period over which savings will be withdrawn. Near-retirees can consider stopping contributions and using the money to start pursuing retirement activities while still drawing a paycheck.

Near-retirees should plan on being flexible with the timing of their retirement. Fahlund opines that fully retiring in the midst of a bear market exacerbates an already negative financial situation by starting withdrawals at a time when the value of the portfolio is diminished.

For allocation, Fahlund says to consider holding 55% in stocks, 35% in bonds and 10% in cash. Given the need for growth, investors entering their 80s should still consider allocating at least 40% to equities.

> Source: "Steps to Keep Retirement Strategy on Track," Christine Fahlund, T. Rowe Price Insights.