RETIREMENT

Retiring in a Slowing Economy? 3 Steps Can Help You Prepare

A weak stock market can create uncertainty when retiring, but a good financial plan can help you find a comfortable path.

(Image credit: Getty Images)

People considering retirement in the near future, as well as early retirees, will likely need to navigate some choppy waters during these times. A slumping stock market, a slowing economy and a Federal Reserve that has signaled further increases in interest rates to combat inflation require retirees to make smart decisions to avoid jeopardizing a successful retirement.

That's where a well-thought-out financial plan can help make a comfortable retirement possible – even during a tough economy. When speaking with recent retirees or people who are considering retiring soon, here are three actions I generally recommend to help them navigate this major life transition.

1. Examine Your Spending History.

Many people don't keep a household budget in the earning years of their career. They also do not want to live on a strict budget in retirement, so I use a different approach: We add up all annual spending over the last three years to look at macrotrends in spending patterns. Anyone can do this by collecting all credit card and bank statements to find spending averages.

The purpose of this exercise is to see if this spending trend is sustainable for the next 30 years in retirement. A person or couple must be able to afford to live on their portfolio savings and guaranteed sources of income, such as Social Security benefits.

In addition, most new retirees soon realize they need to fill their days with at least one major activity – and this usually costs money. During the first two years of retirement, I've watched my clients spend large sums on home improvements, as well as things like international and domestic travel in a recreational vehicle. Certain hobbies, such as restoring a classic car, can easily run into the tens of thousands of dollars and stress the financial plan.

If spending needs to be reduced, there can be some easy fixes. These can include cutting back on monthly automated subscription payments, increasing home and auto deductibles in exchange for lowering premiums on insurance policies, traveling during the off-seasons and taking on some home improvement projects instead of hiring professionals.

Some can be bigger changes – people may decide to downsize their home or consider selling extra cars to save even more money.

2. Build a Plan to Survive a Down Stock Market.

Worry during uncertain times is normal. But those with a comprehensive financial plan should be able to ride it out without making costly errors.

Selling investments at a loss is often based in fear. Most financial advisers know someone who sold their stocks when the market dropped in March 2020. But markets quickly reversed course and set record highs for nearly the next two years. A person with millions in investments who sold their stocks and lost 20% of their value often locked in their losses, missing out on reaping the potential benefits of market gains down the road in the recovery.

As a possible recession approaches, one way I help prepare clients plan for retirement income is to create a bond ladder.

A bond ladder enables someone to purchase a variety of individual bonds with different maturity dates – the date an investor receives the interest payment on their bond. For example, a person could invest $100,000 and buy 10 different bonds each with a face value of $10,000. Because each bond will have a different maturity date, an investor will have a regular stream of guaranteed income if held to maturity. High-quality bonds that will be held to maturity can provide a household with a steady stream of income for the next few years.

3. Understand You Will Need Enough Money to Last 20-30 Years.

Many people in their 60s planning to retire with between $1.5 million and $5 million in investment assets may feel comfortable. But they often don't know if their money will last them at least two decades, possibly longer. By building a plan based on different statistical models, a retiree is able to define their sustainable withdrawal rate, including longevity risks.

America's population of people 90 and older almost tripled between 1980 and 2010 to 1.9 million and is expected to increase significantly over the next four decades. This means new retirees will need enough money to live comfortably for a long time and may not be able to leave money to their heirs.

Each plan is different to fit an individual's or couple's needs. But all of them should help to determine a sustainable rate of withdrawal from a person's or couple's portfolio that will last a lifetime and meet their financial goals. For example, some couples may want to spend every last penny, while others will want to leave some for their heirs. Each plan is built to withstand the stress of events that create uncertainty, such as a recession or a major geopolitical event.

I regularly work with clients during tough times who plan to retire or have just retired, and I help them to segment assets into buckets of money so they have the ability ride out market volatility and also be prepared to take advantage of growth opportunities when the market recovers. Being intentional about a retirement income strategy is key to reducing emotional fears, because the spend-down phase of life is so very different than the mindset of accumulation.

Tough times may be ahead. But with a mindful spending plan and a strategic retirement income plan that has been stress-tested using statistical modeling, retiring with confidence in a volatile market may still be possible.

NYSUT NOTE: Planning is crucial when it comes to retirement, and the NYSUT Member Benefits Corporation-endorsed Financial Counseling Program is here to help. This program offers access to a team of Certified Financial Planners® and Registered Investment Advisors who can provide fee-based financial counseling services and advice that is customized specifically for you and your financial situation. Get more information or enroll by visiting the website.

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Erin Hadary is a CERTIFIED FINANCIAL PLANNER™ (CFP®) professional and a Partner at Moneta. Based in Denver, CO, and serving clients nationally and internationally, she specializes in financial planning for life transitions, including retirement and sudden wealth. When a person inherits a large amount of money – often referred to as "sudden wealth" – they are often overwhelmed and getting personal financial planning help can be life-changing. Erin has more than 15 years of experience in comprehensive wealth management and personal finance. In addition, she has expertise in managing individual and institutional investment portfolios and philanthropic advising.

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