Investors Need to Re-Evaluate Retirement Planning to Reflect Current Market Situation

By Jack K Riashi, Jr., CFP®

The current recession and recent downturn in the stock market has had a negative impact on everyone's investment portfolio, but for people who are nearing retirement, the current situation is direr.

According to recent survey by the Employee Benefit Research Institute (EBRI), many workers have a much more negative view about their retirement prospects.

In the past, planning for retirement seemed fairly simple: First, you save as much as possible in a 401(k) or other work retirement plan that helped you reach the company match; watch the value of your house go up to provide you with lots of equity; and find a nice place in Florida, the Carolinas or Arizona to spend your retirement years.

But that American retirement dream has been dashed for many people hit hard by the recent market downturn and subsequent recession. However, that doesn't mean that you can't retire in much the same manner as you had planned. But in today's reality, it will mean changing both your investment strategy and expectations in order to accomplish your retirement goals.

For example, the EBRI survey indicated that because of the economic downturn, many workers say they expect to work longer than they had previously planned, and more are also planning to supplement their income in retirement by working part-time. Overall, only 13% of those surveyed were very confident about having enough money to retire comfortably. This represents a 50% decline in worker confidence in the survey since 2007. A recent Gallup Poll echoed this sentiment, with only 41% of non-retirement age respondents saying they will have enough money to retire comfortably, down from 59% in the 2002 survey.

As you can see, the mood in the country regarding retirement has changed greatly, and the doom and gloom news media loves to perpetrate this sentiment with story after story on the news and in the papers about people's fears regarding retirement.

But while these surveys and news stories tell people what to fear, they never seem to spend any time trying to help people re-evaluate their retirement goals and revise their financial strategy to help them ultimately meet their retirement goal.

The first thing many of these stories miss is that some people are still in good shape because they don't need to tap into their retirement savings for quite a few years, and if they stay in the market with a well-diversified, multi-asset class portfolio, they should be able to make back their losses and hopefully reaps some added gains pre and post-retirement.

Another aspect many of the news stories ignore is that the days of people planning to totally "retire" is changing, and many retirees plan to continue working part-time, teaching college courses, or consulting during their retirement years, which also helps lengthen the time available to recoup losses before a total retirement.

Lastly, the media loves to focus on the doom and gloom, and so often the people you see featured in news stories are the absolute worse-case scenarios. For the majority of investors, the situation may not be quite as drastic.

Still, it does hurt to know that most investors were down anywhere from 25% to 50% during the past year, so a change in retirement planning and investment strategy may be in order.

The first thing a person saving for retirement needs to think about is "when" they plan to retire. In Michigan, where lots of auto workers had defined benefit pension plans and long-term retirement benefits, working for 30 years and then retiring in their early to mid-50s was not uncommon. However, the rest of the country has dealt with a much different retirement schedule, and Michigan residents are now realizing that the days of "30 and out" are over. In fact, it's not uncommon for people nationally to work well into their 60s and sometimes into their 70s. Again, the advantages of working longer include being able to contribute more to your retirement savings, relying less on your portfolio for income generation, and being able to maximize your Social Security benefits. For example, if a person continues working beyond age 62 and possibly past age 65, they can apply for Social Security and receive their full retirement benefit. The full benefit may be 30% to 40% higher than the age 62 benefit, which is the earliest age one can apply for Social Security benefits. This can make a huge difference in the amount of money you actually have in your portfolio when you do retire, because you can let your funds grow untouched rather than taking a part of them out each month for living expenses.

When it comes to retirement income, the old rule is that you should plan on achieving retirement income of at least 80% of your pre-retirement income during your retirement years. However, that is just an average, and many factors can make your individual need either lower or higher depending on your own circumstances.

For example, many people live well within their means, and plan to continue doing so in retirement. For these people, they could potentially live on less than 80% of pre-retirement income..

Of course, regardless of whether you plan to live modestly or travel the world, the X-factor in retirement planning often comes with our health. And while a major medical condition can drastically cut into ones retirement funds, so too can outliving one’s retirement assets.. In fact, today many people don't plan their retirement funds around their own longevity. Thanks to advances in medical science and a focus on health, many people are living well into their 80s and sometimes even their 90s! While that would have been the exception rather than the rule in the 1960s or 70s, today it is fairly common.

As a result of people living longer, that longevity issue also has to be factored in when saving for retirement so that you don't run out of money. Life expectancy should also be considered when determining your investment strategy and your retirement lifestyle.

As you can see, there are many things to think about when you are developing a financial strategy for your retirement years. However, deciding on your retirement lifestyle is just the first part of good retirement planning strategy. The next part is determining the investment strategy you need to follow to help reach your retirement goals.

I will focus on that part of Retirement Planning in my next article on the Bloom Asset Management website, so check back next week when I will discuss my ideas for the types of investment strategies you should consider when saving for retirement.

Jack Riashi, Jr. is a financial advisor at Bloom Asset Management and a member of the firm’s Investment Committee. He has been serving clients in the financial service industry since 1987. Prior to joining Bloom Asset Management, Jack served as director of investment services for a local financial service firm, where he was responsible for managing over $130 million in client assets. Jack holds the designation of Certified Financial Planner (CFP), a certification that less than 1 in 20 financial planners possess. He is a member of the Financial Planning Association, and a graduate of Wayne State University with a bachelor's degree in finance.