Finding Retirement Income in a Down Market

Household Wealth Down 38%

Through the first five months of 2022, U.S. household wealth fell by an estimated $5 trillion.[1]

December 2021

May 2022

$3 trillion

A large part of that decline is retirement savings, which have diminished by $3 trillion.[2]

Common Retirement Income Sources

Most retirees have some combination of six sources of income to draw upon in retirement.

But During a Down Market,

Getting Income from Depreciated Assets is Sub-Optimal

How do you supplement your Social Security benefits when your retirement investment accounts are way down?

We suggest following these three rules:

Rule #1

Avoid withdrawing from long-term investments—like stocks—so they can stay invested and hopefully rebound as the market recovers.

Rule #2

Determine your required minimum distributions for the year and withdraw them early in that year so the value has less time to fluctuate.

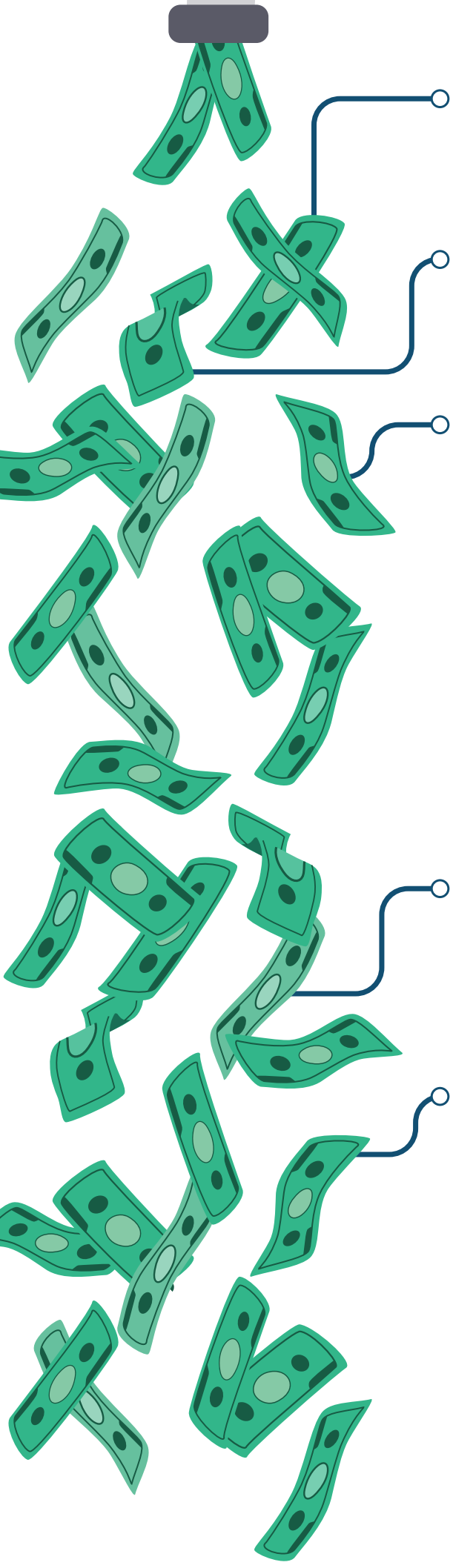
Rule #3

Break down your assets to determine your liquidation preference.

In today's environment, targeting whole life insurance, fixed or indexed annuities, alternative investments, or short-term bonds could provide higher relative returns and be better places to raise capital.

Here's What We Think Is a More Optimal Order to Pull Income When the Market is in the Dumps

Some retirement income sources can be less affected by market conditions. Draw upon those sources first. We recommend this order:



Bank accounts: Cash that is earning close to no return sitting in a savings account should be the primary source to supplement retirement income.

Certificates of Deposit (CDs): Consider laddering CDs so they expire at various times throughout the year. That way you'll always have access to capital if needed.

Cash value from life insurance: Whole life policies—including universal or variable life—have cash values, with some exceptions. You can tap into their accumulated cash value three ways: surrendering the policy, withdrawing a portion, or taking a policy loan. But it's important to know how that cash accumulates. For example, variable life's value is based on its investments in the stock market, which may be lower in a down market. Note: Reducing the cash value may lower death benefits.

Bonds: Historically, when stocks fall, bonds tend to rise or at least maintain their value. So you might be able to capitalize on the rising or relatively stable prices and sell your bonds to generate income when stocks fall.

Stocks: Selling your equities should be the option of last resort when the stock market is down. If you are able stay invested, you potentially should have a chance to generate a positive return in the future.

But if you need to dip into your equity accounts, first consider taking your dividend payments (instead of reinvesting them). And if you need to sell equities, try to offset appreciated gains with harvesting losses so you minimize your capital gains tax.

Be Prepared for a Rainy Day

Plan for market volatility before it happens by carving cash out of your retirement savings. We recommend setting aside three to five years' worth of savings in a liquid account (money market or short-term government bonds) so that if the stock market tanks, you don't have to worry about your near-term income needs or be forced to sell stocks at fire-sale prices.

Calculating your “cash carve-out” takes a little work, but here’s a way to arrive at a number that may be appropriate for your needs and goals.

Take your **current level of annual spending** right now.

Subtract any spending that will cease—like savings contributions or commuting to work—once you retire.

Add in any additional spending that will make your retirement fulfilling. (Travel is a common example.)

Once you have that number, **multiply it** by as little as three (or as many as five) and you have the amount you'd keep in a cash-carve out.

Disclosures:

[1] Marketwatch.com, May 20, 2022

[2] Cbsnews.com, Jun. 17, 2022. An estimated $3 trillion has been lost from U.S. retirement accounts, according to Alicia Munnell, director of the Center for Retirement Research at Boston College.

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