

# Near retirement

## Low risk

Clients in the **Green Zone** are likely in a sound financial position. While there is still a chance that future market changes could make their current plan unsustainable, they need to make few, if any, adjustments at this time.



Green Zone

### Situation Assessment

Investors who are near retirement and in the Green Zone have a very high probability (greater than 80% chance) of achieving their expected retirement lifestyle despite the impact of the current market downturn.

These clients can more confidently stay the course. Consequently, there are few, if any, adjustments they need to make to their planned retirement date or spending patterns.

### Potential Actions

For investors in the Green Zone, immediate action isn't necessary. However they may want to consider the following to further improve their chances of meeting their goals.

#### Income Lever (Potential Flexibility: High)

Delaying retirement or working part time are purely optional ways to further **Spending Lever** (Potential Flexibility: High)

Although these investors have a solid financial base, it may further increase their sense of security to consider whether any future annual spending goals could be reduced.

Investors in this category may also want to consider delaying large, planned withdrawals from their portfolios.

#### Investment Lever (Potential Flexibility: Moderate)

If investors are very sensitive to risk, consider decreasing their equity allocation and increasing their fixed income allocation to help manage further downside risk. While fixed income has recently offered less capital preservation benefit than at other times, it may still help insulate against the higher volatility of equities. Note that this could come at the cost of giving up future lifestyle potential if markets recover.

For those who are willing to accept more market risk, to fund either an expanded lifestyle or a larger estate, boosting their equities allocation may be appropriate. The prudence of doing this will, of course, depend on their current asset allocation, which should be considered carefully so alterations don't jeopardize the security of their current status.

### Discussion Suggestions

Investors in the Green Zone should feel a greater sense of security because there is a high probability of success with their plan.

While this analysis shows these clients are on track to meet their goals, they could be at the threshold of their risk tolerance. If so, they are probably better off than they feel, so your goal as their advisor is to help these clients better understand their situation.

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Compared to most investors, these Green Zone clients have a great deal of flexibility. Despite their relatively solid status, if they find the current market unsettling, they may find relief in considering ways to further manage risk. They could simply view these alternatives as emergency options.

### Future Actions

Monitor the impact of market changes on the value of their portfolio, as well as any material changes to their personal situation.

For a deeper understanding of the viability of their retirement-spending plans and estate goals, it may be helpful to run a more detailed cash-flow analysis in a planning tool. You can create a plan focused on needs or based on risk tolerance, with portfolio adjustments as the primary focus. Utilise Monte Carlo projections to illustrate potential ending wealth ranges. Based on the outcome, consider adjusting desired income (withdrawals), savings rate (contributions), portfolio allocations, or some combination of the three.

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# Near retirement

## Moderate risk

Clients in the **Yellow Zone** face a moderate risk of not fulfilling their lifestyle expectations in retirement. Their current participation in the workforce provides them with more options to improve the status of their plan and further mitigate this risk.



**Yellow Zone**

### Situation Assessment

Investors who are near retirement and in the Yellow Zone have an 65% to 80% chance of meeting their desired retirement-spending goals. As such, they face only a **moderate risk** of not fulfilling their expected retirement lifestyle.

Additionally, their current participation in the workforce provides even more options for improving the status of their retirement-spending plan.

### Potential Actions

Although investors in the Yellow Zone face only a moderate risk, they can further mitigate this risk by considering some of the following actions.

#### Income Lever (Potential Flexibility: High)

Extending full-time work past an expected retirement age is a powerful way to improve retirement sustainability. Delaying retirement would more than likely have the greatest impact on an investment plan. If possible, this should be a first priority.

If a client doesn't want to continue working full time, working part time could also improve retirement sustainability.

#### Spending Lever (Potential Flexibility: High)

Clients in this category may consider pulling this lever if the "Income Lever" (continued employment) is not available or doesn't sufficiently improve the probability that they will meet desired spending goals. In such a case, consider trimming planned retirement spending goals, which may mean a permanent budget adjustment.

A possible one-off option may be delaying large expenditures until plan success measures improve.

#### Investment Lever (Potential Flexibility: Low)

For Yellow Zone investors who are very sensitive to risk, consider decreasing their equity allocations and increasing their fixed-income allocation to help manage further downside risk. While fixed income has recently offered less capital preservation benefit than at other times, it may still help insulate against the higher volatility of equities. Note that this could come at the cost of giving up future lifestyle potential if markets recover.

Otherwise, maintain the current risk profile if it is appropriate for their circumstances. Over time, this may improve the viability of their longer-term lifestyle spending goals.

### Potential Actions

Investors in the Yellow Zone should understand that while their plans have a reasonably high probability of success, some short-term adjustments could materially improve their sense of long-term security.

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These investors, given the timing of the market decline relative to their desired retirement dates, know they have been affected. Depending on their available assets and income needs, they may or may not be as affected as they think. Compared to many investors, they have more flexibility. If they are still very nervous about the impact of future market downturns on their retirement plans, it may be a good idea to use the income and spending levers to improve their sense of security.

Conversations should be about making modest sacrifices now, while there is greater flexibility, in order to improve their opportunity to meet their long-term goals. The tone of the conversations is about the choices they face.

The next step is to discuss priorities and the impact of each lever. For example, if your clients in this zone are able and willing to work longer than originally planned, this income stream combined with an increased savings rate will likely offer them a higher probability of meeting their retirement goals without reducing spending during retirement.

Consider the order of the levers. If the income lever is not available or palatable, these investors may need to spend less now, as well as adjust their spending expectations during part or all of their retirement. If it is possible to spend less now, they'll increase savings for the short term. More importantly, spending less in retirement can have a dramatic impact on their potential ending wealth. The level of their ability to make income, savings or spending adjustments will determine how much impact these changes will have on their plan. The potential impact on their plan depends on how much they can pull each lever, for example, how much they can reduce spending and increase savings.

### Future Actions

Monitor the impact of market changes on portfolio value, measure willingness to reduce or defer spending, calculate the effect of additional income from remaining in the workforce, and include any other material changes to personal situations.

For a deeper understanding of the available choices and their consequences, it may be helpful to run a more detailed cash-flow analysis in a planning tool using current portfolio values as a base plan. The plan can be developed with a focus on needs or based on investors' risk tolerance, with portfolio adjustments as the primary focus. For example, you could illustrate the impact of reduced spending during the first three years of retirement compared to reducing spending during all of retirement. Utilize Monte Carlo projections to illustrate potential ending wealth ranges. Based on the outcome, consider adjusting desired income (withdrawals), savings rate (contributions), portfolio allocations or some combination of all three to create a viable alternative plan.

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# Near retirement

## High risk

Clients in the **Orange Zone** can be at significant risk of not having sufficient assets relative to their future expected spending needs and may not be able to achieve their expected lifestyle in retirement. Investors in this zone will be well served by acting now.



Orange Zone

### Situation Assessment

Investors who are near retirement and in the Orange Zone have a 50% to 65% probability of meeting their spending goal in retirement.

This means they are at **high risk** of having insufficient assets to meet their future expected spending needs, and they may not be able to achieve their expected retirement lifestyle.

Investors in this zone really must act now. Fortunately, their current participation in the workforce may offer a margin of flexibility.

### Potential Actions

#### Income Lever (Potential Flexibility: High)

Working full-time as long as possible (or until their retirement plan status improves significantly) will reduce reliance on investments for income. This could quickly help clients maintain sustainable plans by minimizing portfolio withdrawals for income needs.

Save as much as possible (e.g., the maximum allowed into retirement accounts).

If extending full-time work is not feasible, working part-time, particularly during the early retirement years, may ease portfolio withdrawals enough to improve the odds of maintaining the desired retirement lifestyle.

#### Spending Lever (Potential Flexibility: High)

Reduce planned retirement spending goals—perhaps significantly— if delaying retirement isn't possible.

Assess client's ability and willingness to delay, and quite possibly eliminate, large expenditures

#### Investment Lever (Potential Flexibility: Low)

If investors in the Orange Zone are very sensitive to risk, consider decreasing their equity allocations and increasing their fixed-income allocation to help manage further downside risk. But understand that this may jeopardize longer-term spending goals.

### Discussion Suggestions

Given the timing of the market decline relative to their desired retirement date, these clients are at risk before they enter retirement. They should reassess their goals and understand the potential impact of using the available levers to adjust their plan. The question for you to answer is not if they should pull a lever, but which one or which combination of levers should be used.

Investors in the Orange Zone need to clearly understand the gap between their desired retirement plans and what is financially sustainable.

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Conversations should be about the benefit of making tough decisions now, while there is greater flexibility, and the long-term impact of those decisions. The tone of these conversations is less about what clients may ideally want and more about the choices they need to make.

To be prudent, these clients should make up their shortfall by pulling the necessary levers. Delaying retirement as long as possible combined with increasing savings could quickly resolve the shortfall. If they are not able or are unwilling to make these adjustments, then your conversation with them should centre on reducing spending. Spending less over their retirement life can have a dramatic impact on their potential ending wealth. Focus on each client's minimum retirement-income requirements and how they will meet those needs.

### Future Actions

Follow a detailed client engagement road map to closely monitor the impact of market changes on portfolio value, ability to reduce or defer spending, the effect of additional income from re-entering the workforce, and any other material changes to personal situations. You'll also need to manage expectations regarding a future retirement date, since it could take time to build enough wealth to make it financially feasible.

For a deeper understanding of what it could take to salvage clients' retirement plans, it might help to run a more detailed cash-flow analysis in a planning tool with current portfolio values as a base plan. You can develop the plan based on needs or on clients' risk tolerance, with portfolio adjustments as the primary focus. For example, if the client is able to delay retirement for three years, this affects both the savings rate and the withdrawals they expected to take during the next three years. Use Monte Carlo projections to illustrate potential ending wealth ranges. Based on the outcome, consider adjusting desired income (withdrawals), savings rate (contributions), portfolio allocations or some combination of all three to create a viable alternative plan.

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# Near retirement

## Very high risk

Clients in the **Red Zone** may have a large gap between their planned retirement spending and what is actually sustainable. They may face a very serious risk and must take action with regard to their stated goals. Fortunately, their current participation in the workforce may offer flexibility.



**Red Zone**

### Situation Assessment

Investors who are in the Red Zone have 50% or less probability of achieving their spending goals in retirement. They have a large asset deficit relative to their future expected spending needs. As such, they face a **very high risk** of not fulfilling their expected lifestyle in retirement.

Clients in the Red Zone need to clearly understand that the market impact has resulted in a large gap between planned retirement spending and what is actually sustainable.

These clients face a serious risk and **must** take action with regard to their stated goals.

Fortunately, their current employment may offer some flexibility.

### Potential Actions

#### Income Lever (Potential Flexibility: High)

Working full-time as long as possible (or until their retirement plan status improves significantly) will reduce reliance on investments for income. This may help the client maintain a sustainable plan by postponing portfolio withdrawals for income needs.

If extending full-time work is not feasible, plan to maintain part-time work for a significant portion of the post-retirement horizon.

#### Spending Lever (Potential Flexibility: High)

Significantly reduce expected retirement-spending goals and, if possible, reduce current spending to increase savings if a delayed retirement is not possible.

Assess ability and willingness to delay, and even possibly eliminate, large expenditures.

#### Investment Lever (Potential Flexibility: High)

For investors in the Red Zone who are very sensitive to risk, consider decreasing their equity allocations and increasing their fixed-income allocation to help manage further downside risk. But understand that this may jeopardize longer-term spending goals.

For clients who cannot delay retirement, you may need to annuitise some or most of their anticipated income need. (The guarantee of this income, however, is subject to the claims paying ability of the issuing insurance company.)

### Discussion Suggestions

Investors in the Red Zone need to understand the gap between their planned retirement and what is now possible. They may have little flexibility with their portfolio, which means they should first take advantage of other options to improve their plan's potential success.

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For these clients, conversations should focus on the need to make tough decisions and the potential flexibility they have with their stated goals. The tone of the conversations should be less about what they may consider and more focused on what they must do.

Discuss client priorities and available levers. Delaying retirement as long as possible, as well as increasing savings rates, could resolve their investment shortfall. If not, discuss essential retirement income needs. Again, instead of a conversation based on retirement lifestyle, the discussion should centre on their base needs or income floor.

Consider the order of the levers. If the income lever is not available or palatable, the client will need to spend less now, as well as during part or all of retirement. If it is possible to spend less now, savings will grow for the next three years. More importantly, spending less during retirement life can have a dramatic impact on potential ending wealth. The potential impact on their plan depends on how far they can pull each lever.

### Future Actions

Follow a detailed client engagement road map to closely monitor the impact of market changes on portfolio value, the ability to reduce or defer spending, the effect of additional income from continued work, and any other material changes to personal situations. You will also need to manage expectations about a retirement date, since it could take time to build enough wealth to make retiring financially feasible.

For a deeper understanding of what it could take to salvage your clients' retirement plans, it may help to run a more detailed cash-flow analysis in a planning tool with current portfolio values as a base plan. You can develop the plan focused on your client's needs or on risk tolerance, with portfolio adjustments the primary focus. In this case, the focus will be on either a longer savings horizon due to delaying retirement, or determining the necessary income floor for the investor if a delayed retirement is not possible. Use Monte Carlo projections to illustrate potential ending wealth ranges. Based on the outcome, consider adjusting desired income (withdrawals), savings rate (contributions), portfolio allocations, or some combination of the three to create a viable alternative plan.

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# In retirement

## Low risk

Clients in the **Green Zone** are likely in a solid financial position and can more confidently stay the course with their plan. While there is still a chance that future market changes could make the current plan unsustainable, they need to make few, if any, adjustments to their planned retirement date or spending patterns at this time.



Green Zone

### Situation Assessment

Retired investors in the Green Zone have a high probability (greater than 80% chance) of achieving their desired spending goals in retirement despite the impact of the recent market downturn.

**These clients can more confidently stay the course with their current plans.**

While there is still a chance that future market changes could make the current plan unsustainable, they need to make few, if any, adjustments to their planned retirement dates or spending patterns at this time.

### Potential Actions

For investors in the Green Zone, it may not be necessary to take action immediately. However, they may want to consider the following to further improve their chances of meeting their goals.

Note that for retired clients, the Spending Lever likely comes before the Income Lever in terms of priority.

#### Spending Lever (Potential Flexibility: High)

Although these investors have a solid financial status, considering whether any goals could be delayed, should that become advisable, may help further increase their sense of security.

These investors may also want to consider delaying large, planned withdrawals from their portfolios unless they are unavoidable.

#### Income Lever (Potential Flexibility: Moderate)

Working part-time is an optional way for these clients to further improve their financial condition.

#### Investment Lever (Potential Flexibility: Moderate)

For investors in the Green Zone who are very sensitive to risk, consider decreasing their equity allocation and increasing their fixed-income allocation to help manage further downside risk.

For those who are interested in accepting more market risk to fund an expanded lifestyle or a larger estate, boosting their equities allocations may be appropriate. The prudence of doing this will depend on their current asset allocation, which should be considered carefully so alterations don't jeopardize the security of their current status.

### Discussion Suggestions

Investors in the Green Zone should feel a greater sense of security knowing that their plans have a high probability of success.

Compared to most investors, they have flexibility regarding the levers they can pull if they choose. Despite their relatively solid status, if they find the current market

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unsettling, they may find relief in considering ways to further manage risk. They could simply view these alternatives as emergency options.

### Future Actions

Follow a detailed client engagement road map to monitor the impact of market changes on portfolio value, as well as any material changes to personal situations.

While mathematically these clients have a high probability of meeting their stated goals, they may be at their risk-tolerance threshold. The goal of this exercise will allow these clients to better understand the reality of their situation.

For a deeper understanding of the viability of their ongoing retirement-spending plans and any estate goals, it may be helpful to run a more detailed cash-flow analysis in a planning tool. You can develop their plans with a focus on needs or based on risk tolerance, with portfolio adjustments the primary focus. Use Monte Carlo projections to illustrate potential ending wealth ranges. Based on the outcome, consider adjusting desired income (withdrawals), savings rate (contributions), portfolio allocations or a combination of the three.

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# In retirement

## Moderate risk

With their prime savings years behind them, clients in the **Yellow Zone** may have less flexibility with their portfolio because they have a smaller wealth cushion. They should consider using other mechanisms or levers to improve the potential for success of their plan.



**Yellow Zone**

### Situation Assessment

Retired investors who are in the Yellow Zone have a 65% to 80% chance of meeting their desired spending goal in retirement. As such they face a **moderate risk** of not meeting their expected retirement lifestyle.

With their prime savings years behind them, they may also have less flexibility with their portfolio because they have a smaller wealth cushion. Therefore, they should consider other mechanisms or levers to improve the potential success of their plan.

### Potential Actions

#### Spending Lever (Potential Flexibility: High)

Trim regular spending, at least for the short-term

Delay or, if necessary, eliminate large expenditures

#### Income Lever (Potential Flexibility: Moderate)

This may quickly help your client maintain a sustainable plan by supplementing portfolio withdrawals.

#### Investment Lever (Potential Flexibility: Low)

If your clients are relatively risk averse, consider:

For investors in the Yellow Zone who are relatively risk-averse, consider decreasing their equity allocation and increasing their fixed-income allocation to help manage further downside risk. Note that this strategy could cost your client future lifestyle potential if markets recover.

If investors are highly risk-averse, consider annuitisation to meet some or all of their anticipated income needs.

### Discussion Suggestions

Since these clients have a mid-level probability of meeting their stated goals, discuss actions they may consider to increase their comfort level.

While the market may not have affected their future plans as much as they think, any sacrifices they make to reduce their retirement lifestyle may be easily offset by the extra peace of mind they gain from managing the things they can control.

Clients in this category face a choice between (1) holding to the current plan, which could improve or degrade based on market movements or (2) making adjustments to further manage their risk. Using the Spending Lever and the Income Lever could constrain their lifestyle to some extent, but these actions offer the most control.

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## Future Actions

Follow a detailed client engagement road map to closely monitor the impact of market changes on portfolio value, their ability to reduce or defer spending, the effect of additional income from re-entering the workforce, and any other material changes to their situation.

For additional assurance, it may be helpful to run a more detailed cash-flow analysis in a planning tool with current portfolio values as a base plan. The plan can focus on needs or risk tolerance, with portfolio adjustments the primary focus. Use Monte Carlo projections to illustrate potential ending wealth ranges. Based on the outcome, consider adjusting desired income (withdrawals), savings rate (contributions), portfolio allocations or a combination of the three to further increase the viability of the plan.

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# In retirement

## High risk

Clients in the **Orange Zone** face a material risk of not maintaining their retirement lifestyle. They should take action and understand the potential impact of the available levers on the success of their retirement goals.



Orange Zone

### Situation Assessment

Retired investors who are in the Orange Zone have only a 50% to 65% probability of meeting their spending goals in retirement. This means they could be at **high risk** of having insufficient assets to meet their future expected spending goals.

Since they are no longer working full-time, they may need to rely more heavily on the Spending Lever to improve their funding status.

Investors in this zone **should** take action and understand the potential impact of the available levers on the success of their retirement goals.

### Potential Actions

#### Spending Lever (Potential Flexibility: Moderate)

Reduce planned retirement spending.

Assess ability and willingness to delay, or possibly eliminate, large expenditures.

#### Income Lever (Potential Flexibility: Moderate)

Seriously consider working part time during retirement, particularly if reduced spending cannot sufficiently repair the plan.

#### Investment Lever (Potential Flexibility: Low)

Consider decreasing their equity allocation and increasing their fixed-income allocation to help manage further downside risk. But understand that this may jeopardize longer-term spending goals.

Along with altering spending and income, consider annuitising some or all of anticipated income need.

### Discussion Suggestions

Investors in the Orange Zone need to clearly understand the gap between their retirement spending plans and what they can financially sustain. They may have little flexibility to change their portfolio, so they should first take advantage of other levers that could improve their plan's potential success.

Given the timing of the market decline in light of their retired status, these clients may wonder about the impact on their portfolio. You can help address which levers to pull and how hard they should be pulled.

Focus on the benefit of making tough decisions now, while there may be greater flexibility. Keep in mind the long-term impact those decisions could have on achieving their desired lifestyle. These conversations should be less about what they may ideally want and more about the choices they need to make.

Follow-up conversations and priorities will depend on the availability of specific levers. For example, if your client is able and willing to work part-time for a few

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years, this extra income may give them a higher probability of meeting their retirement goals without drastically reducing spending.

To be prudent, these clients should take action to make up their investment shortfall by pulling the available levers as necessary. Instead of having a conversation about desired spending goals, focus the discussion on planning for their more basic needs.

If returning to work isn't possible or palatable, investors in this group will need to spend less now, as well as during part or all of retirement. Spending less during retirement can have a dramatic impact on potential ending wealth.

### Future Actions

Follow a detailed client engagement road map to closely monitor the impact of market changes on portfolio value, ability to reduce or defer spending, the effect of additional income from re-entering the workforce, and any other material changes to personal situations.

For a deeper understanding of what it could take to salvage retirement plans for these clients, it may be helpful to run a more detailed cash-flow analysis in a planning tool with current portfolio values as a base plan. You can develop the plan based on needs or risk tolerance, with portfolio adjustments the primary focus. Use Monte Carlo projections to illustrate potential ending wealth ranges. Based on the outcome, consider adjusting desired income (withdrawals), savings rate (contributions), portfolio allocations, or a combination of all three to create viable alternative plans.

### For more information:

Call Russell Investments at **020-7024-6000** or visit **[www.russell.com](http://www.russell.com)**

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# In retirement

## Very high risk

Clients in the Red Zone need to clearly understand that the market downturn may have created a large gap between their planned retirement spending and what they can sustain. As such, they may face a very serious risk and must take action with regard to their stated goals.



Red Zone

### Situation Assessment

Retired investors who are in the Red Zone have a 50% or less chance of reaching their desired income goal during retirement. These clients need to clearly understand that the market downturn may have created a large gap between their planned retirement spending and what they can sustain.

As such, they bear a **very high risk** and must take action with regard to their stated goals.

### Potential Actions

Discuss the need to make tough decisions as soon as possible to alter their goals. The tone of these conversations is less about what they may consider and more focused on what they **must** do.

#### Income Lever (Potential Flexibility: Low)

Strongly recommend that these clients resume full-time or part-time work immediately. Depending on the level of income they can generate, this single action may be all that is necessary to address their large retirement-income deficit. This lever is a priority.

Since these clients are already retired, however, this lever may not be available. And even if it is available, it may be difficult to pull, or at the very least may take some time to pull. In these cases, simultaneously revisit spending goals.

#### Spending Lever (Potential Flexibility: Moderate)

Materially reduce these clients' spending goals during all or part of their retirement. Also plan to delay or eliminate all non-essential, one-time expenditures.

Establish a minimum-spending requirement for planning purposes before considering any changes to the investment portfolio.

#### Investment Lever (Potential Flexibility: Low)

Along with altering spending and income, you may need to annuitise some or all of these clients' anticipated income needs to provide a safety net for some of their living expenses. (The guarantee of this income, however, is subject to the claims-paying ability of the issuing insurance company.)

One way to approach this is to calculate the cost of annuitising the minimum required spending goal (base income floor) and invest the remaining portfolio. Depending on the cost of the annuity relative to the annual payment, this could reduce the withdrawal strain on the non-annuitised portion of the portfolio. For example, if an annuity can generate income of 6% for 50% of the portfolio and the goal is an overall spending rate of 4%, then the non-annuitised portion would need to generate 2% cash flow to maintain the 4% overall rate. Consider this in the context of other levers' effects.

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## Discussion Suggestions

Consider the availability and order of the levers. For example, discuss whether or not the client can resume full-time or part-time work or spend less, and what the potential impact is. If your client is able and willing to work part-time for a few years, this income supplement may give them a higher probability of meeting their retirement goals without further spending reductions.

These clients must take action in order to make up their investment shortfall, and they should aim to pull as many levers as necessary in order to address this deficit. Instead of a conversation based on retirement lifestyle, the discussion should centre on their base needs or income floor. Spending less over their remaining retirement life can have a dramatic impact on their potential ending wealth.

## Future Actions

Follow a detailed client engagement road map to closely monitor the impact of market changes on investment portfolios, their ability to reduce or defer spending, additional income from re-entering the workforce, and any other material changes to their circumstances.

For a deeper understanding of how to salvage these retirement plans, it may help to run a more detailed cash-flow analysis in a planning tool with current portfolio values as a base plan. You can develop the plan based on needs or on risk tolerance, with portfolio adjustments the primary focus. Use Monte Carlo projections to illustrate potential ending wealth ranges. Based on the outcome, consider adjusting desired income (withdrawals), savings rate (contributions), portfolio allocations, or a combination of all three to create a viable alternative plan. Then regularly monitor plan status based on changes to circumstances or general market changes. Re-evaluate the plan if the value of the portfolio changes significantly and/or the client re-enters the workforce.

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