

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

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:

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