

# 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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