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.

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.

For more information:

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