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.

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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.

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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