

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.

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.

For more information:

Call Russell Investments at **020-7024-6000** or visit **www.russell.com**

Disclosures

For profile methodology please see client analyser tool.

This material does not constitute an offer or invitation to anyone in any jurisdiction to invest in any Russell product or use any Russell services where such offer or invitation is not lawful, or in which the person making such offer or invitation is not qualified to do so; or to anyone to whom it is unlawful to make such offer or invitation, and has not been prepared in connection with any such offer or invitation.

This material is not intended for distribution to retail clients. Unless otherwise specified, Russell is the source of all data. Unless otherwise specified, all information contained in this material is current at the time of issue and to the best of our knowledge all information presented is accurate, however this cannot be guaranteed. Any opinions expressed are those of Russell Investments Limited and not a statement of fact and they do not constitute investment advice and are subject to change.

The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested.

There is no guarantee that any target or projected figures will be met and this information is for illustrative purposes only. Any simulated figures and estimated figures are for illustrative purposes only. Any past performance figures are not necessarily a guide to future performance. Any reference to returns linked to currencies may increase or decrease as a result of currency fluctuations. Any references to tax treatments depend on the circumstances of the individual client and may be subject to change in the future.

Copyright © 2007 - 2009 Russell Investments Limited

Issued by Russell Investments Limited. Company No. 02086230. Registered in England and Wales with registered office at: Rex House, 10 Regent Street, London SW1Y 4PE. Telephone 020 7024 6000. Authorised and regulated by the Financial Services Authority, 25 The North Colonnade, Canary Wharf, London E14 5HS.