

# Near retirement

## Very high risk

Clients in the **Red Zone** may have a large gap between their planned retirement spending and what is actually sustainable. They may face a very serious risk and must take action with regard to their stated goals. Fortunately, their current participation in the workforce may offer flexibility.



**Red Zone**

### Situation Assessment

Investors who are in the Red Zone have 50% or less probability of achieving their spending goals in retirement. They have a large asset deficit relative to their future expected spending needs. As such, they face a **very high risk** of not fulfilling their expected lifestyle in retirement.

Clients in the Red Zone need to clearly understand that the market impact has resulted in a large gap between planned retirement spending and what is actually sustainable.

These clients face a serious risk and **must** take action with regard to their stated goals.

Fortunately, their current employment may offer some 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 may help the client maintain a sustainable plan by postponing portfolio withdrawals for income needs.

If extending full-time work is not feasible, plan to maintain part-time work for a significant portion of the post-retirement horizon.

#### Spending Lever (Potential Flexibility: High)

Significantly reduce expected retirement-spending goals and, if possible, reduce current spending to increase savings if a delayed retirement is not possible.

Assess ability and willingness to delay, and even possibly eliminate, large expenditures.

#### Investment Lever (Potential Flexibility: High)

For investors in the Red Zone who 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.

For clients who cannot delay retirement, you may need to annuitise some or most of their anticipated income need. (The guarantee of this income, however, is subject to the claims paying ability of the issuing insurance company.)

### Discussion Suggestions

Investors in the Red Zone need to understand the gap between their planned retirement and what is now possible. They may have little flexibility with their portfolio, which means they should first take advantage of other options to improve their plan's potential success.

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For these clients, conversations should focus on the need to make tough decisions and the potential flexibility they have with their stated goals. The tone of the conversations should be less about what they may consider and more focused on what they must do.

Discuss client priorities and available levers. Delaying retirement as long as possible, as well as increasing savings rates, could resolve their investment shortfall. If not, discuss essential retirement income needs. Again, instead of a conversation based on retirement lifestyle, the discussion should centre on their base needs or income floor.

Consider the order of the levers. If the income lever is not available or palatable, the client will need to spend less now, as well as during part or all of retirement. If it is possible to spend less now, savings will grow for the next three years. More importantly, spending less during retirement life can have a dramatic impact on potential ending wealth. The potential impact on their plan depends on how far they can pull each lever.

### Future Actions

Follow a detailed client engagement road map to closely monitor the impact of market changes on portfolio value, the ability to reduce or defer spending, the effect of additional income from continued work, and any other material changes to personal situations. You will also need to manage expectations about a retirement date, since it could take time to build enough wealth to make retiring financially feasible.

For a deeper understanding of what it could take to salvage your clients' 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 focused on your client's needs or on risk tolerance, with portfolio adjustments the primary focus. In this case, the focus will be on either a longer savings horizon due to delaying retirement, or determining the necessary income floor for the investor if a delayed retirement is not possible. 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 the three to create a viable alternative plan.

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### For more information:

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For profile methodology please see client analyser tool.

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