

You just retired (or are about to); what comes next?



If you just retired or you are near retirement, you should focus on what you can control to keep your sanity. MARK LENNIHAN — ASSOCIATED PRESS FILE

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If there's a single group of people who are likely to be experiencing the most consternation over recent market events, it's those who have just retired or who are on the cusp of hanging it up.

But as with most things in life, the key for new- and near-retirees making it through this period with their sanity intact is to focus on what they can control.

Assess spending rate

People who have just retired or are about to do so are vulnerable to sequence-of-returns risk, which means that a bad market shows up early in retirement. And this imperils your portfolio's ability to last throughout your retirement years.

Retirees who are pulling cash flows from their portfolios can address that risk by adjusting spending down to ensure that more of their portfolios are in place to recover when the market eventually does.

In our retirement income research, we found that tweaks like forgoing an inflation adjustment following a bear market help ensure that spending lasts over a 30-year period.

If you haven't yet retired, assess your planned in-retirement spending and identify where you could make cutbacks if needed.

Pull cash flows from safer assets

Ideally, you can pull portfolio cash flows from safer assets and leave your stock positions undisturbed. That's the general logic behind the Bucket approach to portfolio construction. In good years for the stock market, harvest appreciated equity assets for income. In bad ones, don't touch stocks but instead source cash flows from high-quality bonds or cash.

Using that logic, you may even want to reinvest income distributions back into securities that have recently lost value rather than spending them.

Play the long game with Social Security

If pulling too much from a portfolio during down markets is a bad idea, filing for Social Security might look compelling.

But it could be a mistake to let what we hope will be a short-lived downturn steer you away from the lifetime benefits of delayed Social Security. Delayed filing can be particularly impactful if you're the higher earner in your family and you have a younger spouse who will receive that higher benefit for her lifetime.

In our retirement income research, we found that the benefits of delaying filing until age 70 are greatest if you have other funds to draw from until then. And they're obviously more valuable for people with above-average life expectancies, in that they stand to receive that inflation-protected income for longer. If you need funds and have to choose between filing for Social Security and pulling from a depressed equity portfolio, consider filing for Social Security and then doing a "withdrawal of benefits" within a year of when you initially filed.

Revisit inflation protection

Inflation is a key risk for retiree portfolios, because the income you receive from your safe investments is going to buy you less as you age.

Many retirees focus exclusively on nominal bonds and underrate the value of inflation-protected bonds, but most of the better target-date series stake about a fourth of the bond positions in short-term Treasury Inflation-Protected Securities for people who have just retired.

Another strategy is to build a ladder portfolio of TIPS that will mature and supply you with living expenses throughout your retirement.

Investigate tax-saving strategies

Finally, one small silver lining in market volatility is the opportunity to save on taxes.

The early-retirement years are an excellent time to convert traditional IRA balances to Roth. The reason is that without income from work and because you won't be subject to required minimum distributions until you're 73, your income and, in turn, the taxes that you'll owe on conversions will be lower.

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