EDUCATIONAL COMMENTARY

For consumers

HOW TO THINK ABOUT A "RETIREMENT RESET" DURING TIMES OF UNCERTAINTY

"SHOULD YOU HAVE RETIRED EARLIER?"

"IS THIS MARKET VOLATILITY GOING TO IMPACT MY ABILITY TO RETIRE?"

"HOW ARE THE KNEES?"

These are some of the questions Americans would ask themselves if they could look into the future as their retirement years grew closer. Perhaps you've asked similar questions yourself, especially in this past month.

If you find yourself on the verge of retirement, or even recently retired, you might be reassured or at least find interesting lessons in seeing how your peers are answering the same questions.

Last month, the Alliance for Lifetime Income, a nonprofit educational organization that educates Americans about protected lifetime income, conducted a nationwide survey of people in their prime retirement years — aged 61 to 65 — to better understand the questions, lessons and surprises that arise for so many as they approach the end of their career. The survey also provided useful insights into how Americans at this age respond to heightened uncertainty and think about the timing of their own retirement.

We all know the future always carries with it a degree of uncertainty — about money, health, family and even your own goals and aspirations. This new research paints a picture of what life is like for those nearing retirement or recently retired.

And if you're a few years out from retirement, these findings may make your potential future a bit clearer.

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MARKET VOLATILITY AND RETIREMENT

One big source of uncertainty for people in their prime retirement years is whether the stock market will go up or down — and by how much and how fast — commonly known as market volatility. Not surprising, six out of ten people surveyed by the Alliance expressed concern about the significant market volatility we've experienced in early 2020, and the level of concern is even higher among those still working and nearing retirement.

Though they may not realize it, their concern is closely related to a known challenge in retirement planning. Americans at retirement age face a unique risk from downturns in the market. Experts call it "sequence of returns risk," which refers to the long-term impact on a financial plan from a significant drop in the stock market immediately prior to or during the early years of retirement. The more exposure you have to sequence of returns risk, the greater your risk of running out of money in retirement.

One of the benefits of having protected lifetime income as part of your retirement plan is the confidence you'll have in staying the course with your other investments, even during big market swings, and the potential anxiety those swings can cause. This is supported by a key finding in the Alliance survey, where more than seven out of ten people in their prime retirement years aren't making changes to their portfolio; a number mirrored by the 76% of people who reported having a pension, annuity or both.

While recent stock market volatility doesn't appear to change investment and portfolio decisions for most, it does appear to play a significant role in whether and when you

retire as planned. Among those the Alliance surveyed who are currently employed, more than half (52%) are not fully confident they'll be able to retire at the age they identify as their goal. And stock market conditions were most often pointed to as the reason for that uncertainty.

THE RETIREMENT RESET

You already know that your retirement is a significant milestone in life, but you may not anticipate how much it will affect your attitudes and behaviors. In fact, if you're 61-years-old and retired, your perceptions are more aligned with a 65-year-old retiree than with a fellow 61-year-old who is still working.

The differences between someone who is retired and someone who is still working extend into nearly every aspect of one's life at this age. If you are retired, you are:

- More likely to be confident that you will have the income to cover your expenses throughout retirement;
- Less likely to feel concerned about stock market volatility;
- More likely to have a source of protected lifetime income, such as a pension or an annuity; and
- More likely to feel content with your financial situation.

While some of the differences between your working and retired years may be stark, predicting when you'll transition between them is often difficult — despite what you might think or plan for. In fact, nine in ten working Americans in their prime retirement years anticipate their retirement timing will be based on hitting specific planned milestones. Yet, nearly half of those in the same age range who have already retired say they did so as the result of circumstances not fully within their own control.[1]

PLANNING FOR UNCERTAINTY

There's a proven strategy to managing uncertainty and retirement readiness. It's called retirement income planning and is best done alongside a trusted financial professional.

Uncertainty, of course, has always been with us, but it's more apparent during times like this, with a volatile stock market and heightened concern about the direction of the economy.

One way to reduce uncertainty and the risk of running out of money in retirement is by making sure you have enough protected lifetime income to cover what we like to call your "basics"—those essential monthly expenses such as a mortgage, utilities or groceries. Since Social Security only gets you about 40% of the way there, leading economists and retirement planners tell us an annuity is a way to help cover your basics and fill that gap in protected income.[2]

If you want help planning for uncertainty, your next steps are simple: speak with your financial professional, if you have one, or find a trusted financial professional if you don't. And if you want an easy starting point for the conversation, here are the five questions you should ask your financial professional during market volatility.

[1] The COVID-19 Retirement Reset, March 2020.

[2] https://www.ssa.gov/planners/retire/r&m6.html

Annuities are long-term investments designed for retirement purposes. Product guarantees are subject to the claims-paying ability of the issuing insurance company. Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½. Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

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