Protect savings from vagaries of the market

By Michael Abbott and Christopher Bennett

As people creep into the retirement “red zone” – those years just before or right after they retire – it becomes more important than ever that they find ways to keep their savings safe.

Because at that point, their retirement picture will change significantly only if they lose a lot of money.

They are not going to change who they are. But if they lose a bucket of money, they are not going to go out to eat, they won’t travel, they won’t be able to leave money to their children and grandchildren. They will end up having to make sacrifices.

In other words, they won’t be living the retirement they envisioned all those years they were saving a nest egg.

Having a “safe money” strategy is key to a secure retirement. It’s important to be able to create an income stream that the retiree won’t outlive.

There are several areas you and your financial professional can focus on as part of an overall “safe money” strategy.

Here are two examples:

• Rate of return vs. sequence of return. The average rate of return on an investment can be misleading. That’s because in reality how well you hang onto your money depends more on “sequence of return.” That is, exactly when do those profits and losses come about?

To see how that might work, imagine a 50 percent loss followed by a 50 percent gain. That would appear to average out to a zero rate of return. But that's not how it would look in your portfolio. If you have $100,000, a 50 percent loss drops it to $50,000. The market rebounds with a 50 percent gain. But a 50 percent gain on $50,000 just increases that investment to $75,000, so you've still taken a loss.

Now consider that kind of activity over the course of your retirement as you are also withdrawing money from your savings to live on. Depending on when market fluctuations happened, you could take major hits. That's especially true if the dips come early in retirement when your savings are at their peak, and the rallies arrive late when there is less left in the account.

One big downturn and that money could run dry.

There are tools that a good financial professional uses that can help people reduce the risk created by sequence of return.

• Maneuvering toward tax-free income. Whatever the tax rates may be in the future, taxes can be a drag on your savings and may adversely impact your retirement security. So it's important to consider the tax implications of how you hold your assets.

Even those Social Security benefits that retirees draw can be taxed, but they don't necessarily have to be. Once again, a financial professional can review strategies that could help reduce or even eliminate the tax on that monthly Social Security benefit.

It's possible to have tax-free income in retirement. Talk about being in control. Then you can just enjoy your retirement with your children and your grandchildren.

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