E.T.S. Financial Services, LLC
The Retirement Advisors

WILL A RECESSION ROB YOUR RETIREMENT?

FOUR THINGS TO CHECK NOW

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When a recession hits, much more is at stake than stock market shares. During The Great Recession, which started in December 2007 and stretched into June 2009, not only did Americans lose $16 trillion in net worth,[1] unemployment increased by 4.5 percentage points[2] and over 8.7 million jobs were lost.[3] Those who relied on selling their home or real estate properties to help fund their retirements had their hopes dashed when housing prices fell 33%.[4]

So, when economists start pointing to signs a recession is on the way[5], it is natural to feel anxious. Retirees on a fixed income or those getting ready to begin retirement can feel especially vulnerable.

HERE'S THE GOOD NEWS:

While the economy is largely unpredictable, your retirement income doesn't have to be. By getting a clear picture of where your finances stand and creating a plan that takes worst-case scenarios into account, you can feel confident about retirement — even in a recession.

This guide will look at four areas to address to help ensure you can weather a drop in the market.

[1] Frank Nothaft, Molly Bœsel and Sam Khater. CoreLogic. February 2018. "Special Report: Evaluating the Housing Market Since the Great Recession." https://www.corelogic.com/downloadable-docs/corelogic-peak-totrough-final-030118.pdf. Accessed Sept. 25, 2019.

[2] U.S. Bureau of Labor Statistics. February 2012. "BLS Spotlight on Statistics/The Recession of 2007–2009." https://www.bls.gov/spotlight/2012/recession/pdf/recession_bls_spotlight.pdf. Accessed Sept. 25, 2019.

[3] Frank Nothaft, Molly Bœsel and Sam Khater. CoreLogic. February 2018. "Special Report: Evaluating the Housing Market Since the Great Recession." https://www.corelogic.com/downloadable-docs/corelogic-peak-totrough-final-030118.pdf. Accessed Sept. 25, 2019.

[4] Ibid.

[5] Maggie Fitzgerald. CNBC. Sept. 2, 2019. "Here's a list of recession signals that are flashing red." https://www.cnbc.com/2019/09/02/heres-a-list-of-recession-signals-that-are-flashing-red.html. Accessed Sept. 25, 2019.

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1.
YOUR EXPENSES

Even in a prosperous bull market, the list of things to prepare for in retirement is lengthy: rising health care costs,[6] end-of-life expenses and a longer life[7] often top the list.

Any financial professional will tell you that the earlier you can save, the better. But, as many families realize, sometimes building a nest egg takes a back seat to things like buying a home or paying for college. In fact, in 2018, a survey by the Federal Reserve found that one-quarter of non-retired adults surveyed had no retirement savings, period.[8]

[6] Alessandra Malito. MarketWatch. April 11, 2019. "Health-care costs in retirement continue to rise — here's what you need to know." https://www.marketwatch.com/story/health-care-costs-in-retirement-continue-to-rise-heres-what-you-need-to-know-2019-04-02. Accessed Sept. 30, 2019.

[7] United States Census Bureau. June 20, 2019. "Population Estimates Show Aging Across Race Groups Differs." https://www.census.gov/newsroom/press-releases/2019/estimates-characteristics.html. Accessed Sept. 30, 2019.

[8] The Board of Governors of the Federal Reserve System. May 2019. "Report on the Economic Well-Being of U.S. Households in 2018." https://www.federalreserve.gov/consumerscommunities/files/2018-report-economic-well-being-us-households-201905.pdf. Accessed Sept. 30, 2019.

What about you? Recessions often lead to job cuts. If you had to stop working earlier than planned, would you be in a tight spot?

CHECK

YOUR CURRENT AND FUTURE EXPENSES

Calculate what you spent last month on:

Mortgage/rent: ______________

Home/rental insurance: ______________

Utilities (water, electricity, gas): ______________

Auto (payments, insurance, fuel): ______________

Food (groceries and dining out): ______________

Other: ______________

TOTAL: ______________

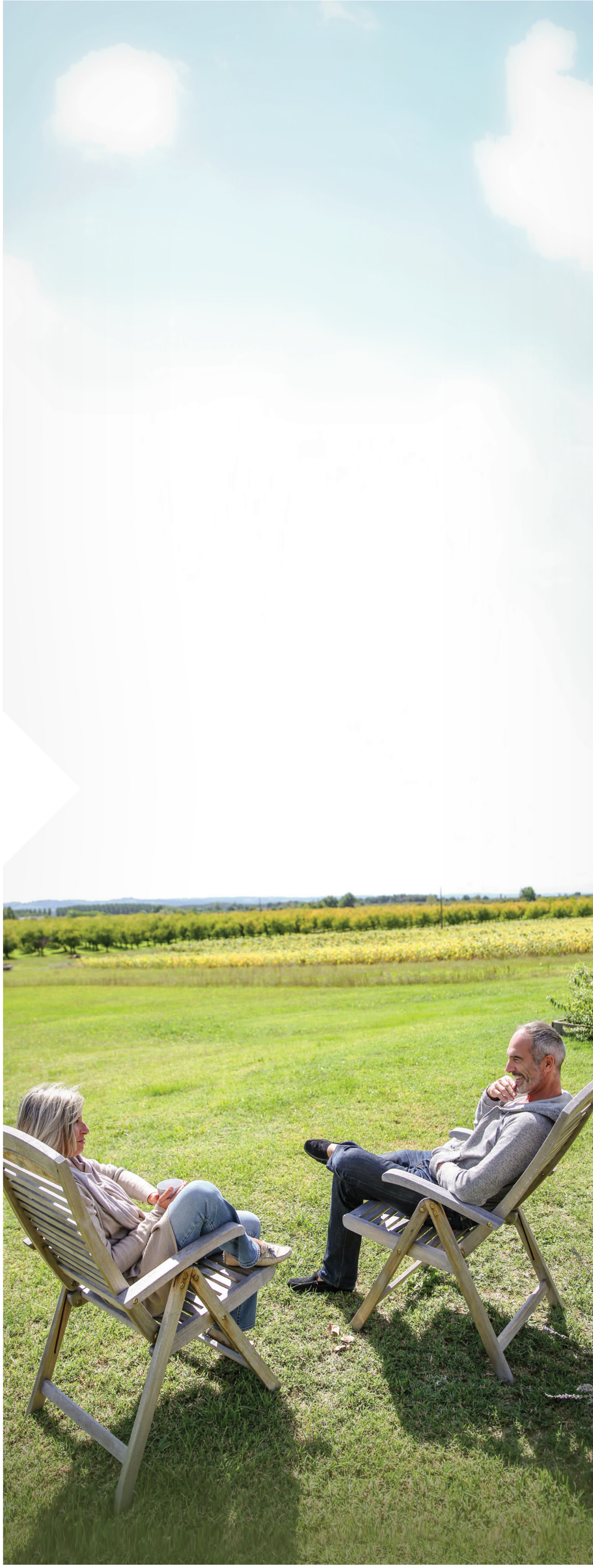
You may wish to factor in health care expenses that could arise at the end of your retirement years. Based on a recent study, a 65-year-old couple retiring in 2019 could anticipate spending on average $1,033 a month on health care and medical expenses. For a single woman that cost was approximately $543 and for a single man $536.[9] Add an amount that you feel reflects how much you can anticipate spending per month on health care.

HEALTH CARE TOTAL: ______________

Add these two totals together and multiply by 12 to get your approximate annual expenses in retirement.

ANNUAL TOTAL: ______________

Of course, these expenses don't include the things you may *want* to do in retirement, things like traveling, hobbies and family visits. These things not only make life more fulfilling, research also shows participating in the activities you enjoy can help lower your risk for certain health problems, like dementia.[10] So, as you consider your expenses, remember to take your dreams into account.



9 Rebecca Moore. PlanSponsor. April 2, 2019. "Estimates for Health Care Costs in Retirement Continue to Rise." https://www.plansponsor.com/estimates-health-care-costs-retirement-continue-rise/. Accessed Dec. 13, 2019.

10 National Institute on Aging. Oct. 23, 2017. "Participating in Activities You Enjoy." https://www.nia.nih.gov/health/participating-activities-you-enjoy. Accessed Oct. 2, 2019.

2

2.
YOUR ASSETS

Where does your nest egg live? If you're like many, your assets are spread out in things like 401(k)s, mutual funds and company stock options. All of those assets are tied to the market, so, during a recession, they could significantly decrease in value. On average, the stock market loses 13% in a correction.[11]

CHECK

THE ASSETS YOU'VE ACCUMULATED

Take inventory of your accounts:

Employer benefit plan (401(k), pension, 403(b), etc.):	______________
IRA:	______________
Stock options:	______________
Mutual funds:	______________
Bonds:	______________
Other:	______________
TOTAL:	______________

Now consider the expenses you calculated in Section 1. Would you have enough income to meet those expenses if you lost your job? Could you support your lifestyle if you and your spouse lived to age 80? (According to the Centers for Disease Control and Prevention, the average lifespan for men is 76. Women enjoy a longer average lifespan of 81 years.[12])

[11] Thomas Franck and Kate Rooney. CNBC. Oct. 26, 2018. "The stock market loses 13% in a correction on average, if it doesn't turn into a bear market." https://www.cnbc.com/2018/10/26/the-stock-market-loses-13percent-in-a-correction-on-average.html. Accessed Dec. 2, 2019.

[12] Sherry L. Murphy, B.S., Jiaquan Xu, M.D., Kenneth D. Kochanek, M.A., and Elizabeth Arias, Ph.D. Centers for Disease Control and Prevention. November 2018. "Mortality in the United States, 2017." https://www.cdc.gov/nchs/products/databriefs/db328.htm. Accessed Oct. 2, 2019.

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3.
YOUR RISK TOLERANCE

While investing in the market is a risk, it is an effective way to grow assets — particularly for pre-retirees who got a late start to their savings. But how much of your savings *should* be invested in the market?

Calculating your risk tolerance, the degree of variability in investment returns you are willing to withstand, can help you decide. Many factors go into determining your risk tolerance. A financial professional has access to tools that can pinpoint the exact amount of risk that's appropriate for you. But you can get a rough idea of how much risk should be in your portfolio by asking yourself a few questions.

CHECK

HOW MUCH RISK SHOULD YOU TAKE ON?

How much would you feel comfortable losing if your investments had a bad year (or series of years)?

___

How soon do you want to retire?
(The closer you are, the less risk you want to take on.)

___

No matter what your risk tolerance is today, it likely will change in the future, and you'll need to rebalance your portfolio (or adjust the amount of investments you have compared to reliable income sources). Reallocating your money often requires reading the fine print. For instance, those in or nearing retirement may want to take funds from their 401(k), which is directly tied to the stock market, to a lower-risk financial product. However, because 401(k)s are tax-deferred, moving them to another type of account could cost you in taxes. A licensed financial professional can work with your tax professional to help ensure your assets are moved as tax efficiently as possible while staying within your risk tolerance.

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4.
AN INCOME GAP

Could the total assets you calculated in Section 2 cover your expenses from Section 1 if you and your spouse lived to be 80 years old? If you came up short, you have an income gap.

By taking action sooner rather than later, it is certainly possible to build up your nest egg to where you need it to be before you retire. But if you're anticipating a recession, especially in the time leading up to your retirement or during the early years of your retirement, you may be hesitant to rely too heavily on a healthy stock market.

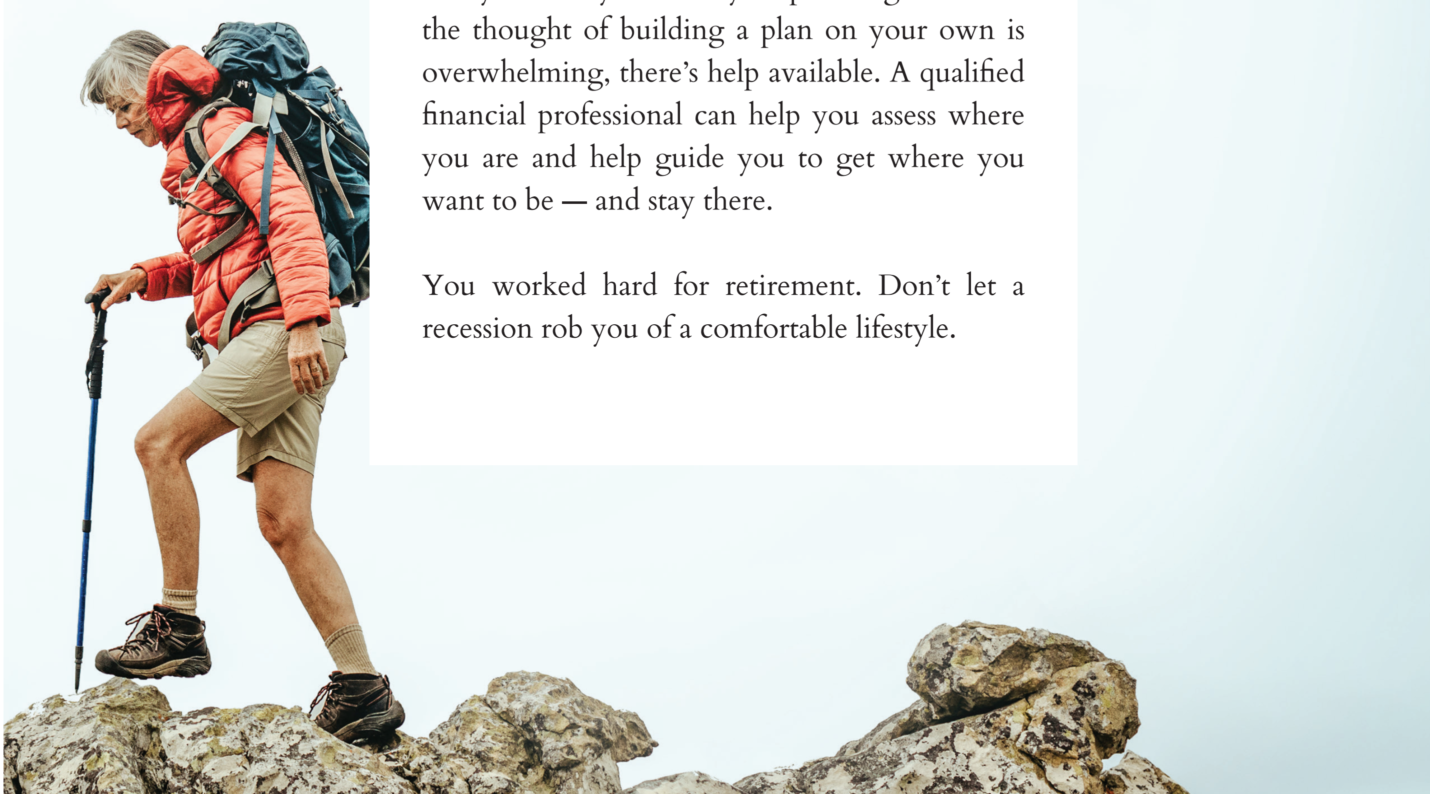
If you're racing to build up your retirement savings but wary of investing a large chunk of your assets in the stock market, there are other options for a portion of your retirement assets. Financial products, like annuities, allow you to create income with less reliance on the stock market.

Annuities are designed to meet long-term needs for retirement income. When you purchase an annuity, you're purchasing a contract from an insurance company. In exchange for the premium you pay, you receive certain fixed and/or variable interest crediting options that compound interest-tax-deferred until withdrawn. When you're ready to receive income, an annuity offers a variety of guaranteed payout options through a process known as "annuitization."

If you want the potential to earn interest on your premiums — to help catch up on your savings — fixed index annuities could be worth exploring. The fixed index annuity combines the benefit of tax deferral with the potential for interest based on positive changes of an external index, or a measurement of a section of the stock market, without actual participation in the market.

So, how does it work? The insurance company uses a crediting method to track the performance of the index during a specified time period. At the end of each time period, the company calculates the indexed interest. If the result is positive, the annuity is credited interest up to a predetermined amount. If the result is negative, nothing happens and the annuity's value doesn't decline.

A qualified financial professional, particularly one who is independent and has access to a wide selection of annuities, can help you find an FIA that can help you create a source of income for as long as you live, even in a recession.



CHECK

YOUR INCOME GAP

Total assets - [Annual expenses x 18*] = ____________

*Average length of retirement, in years[13]

DON'T LET THE MARKET DICTATE YOUR LIFESTYLE

You don't need a bull market to guarantee a great retirement. One of the keys to a comfortable lifestyle in any economy is planning ahead. If the thought of building a plan on your own is overwhelming, there's help available. A qualified financial professional can help you assess where you are and help guide you to get where you want to be — and stay there.

You worked hard for retirement. Don't let a recession rob you of a comfortable lifestyle.

[13] Dana Anspach. The Balance. Aug. 12, 2019. "Average Retirement Age in the United States." https://www.thebalance.com/average-retirement-age-in-the-united-states-2388864. Accessed Nov. 5, 2019.

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