



Helping Americans' Retirement Plans Recover From COVID

Many Americans say it will take two or three years to repair pandemic damage to their retirement savings, due to job loss or emergency retirement withdrawals.

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Make no mistake about it: COVID-19 has affected the retirement plans of many Americans. In fact, 82% of Americans say the events of the past year have hurt their retirement plans, according to Fidelity Investments' 2021 State of Retirement Planning Study.

However, "the vast majority are still confident they will be able to retire when and how they want to," said Melissa Ridolfi, senior vice president of Retirement and Cash Management at Fidelity Investments, in an interview.

What's more, one-third of Americans estimated it will take two to three years to get back on track, due to such factors as job loss or retirement withdrawals, according to Fidelity.

And, when compared against the pre-pandemic world, people are more stressed than before on several fronts, according to Fidelity. For instance, 42% concerned about their ability to afford healthcare costs in retirement.

That's the bad news.

The good news is that the majority of Americans are still confident they'll be able to retire when and how they want, and 36% are now even more confident in their retirement plan than before.

And the even better news is that having a plan matters. According to Fidelity, those with a firm plan in place for how to afford their retirement goals appear to fare significantly better on a number of levels, including confidence, peace of mind, and control over how and when they will retire. In several areas, Fidelity noted that the difference is almost 2-to-1.

"A plan is going to give you confidence," said Ridolfi. "The most important thing when you're saving for retirement is knowing where you stand."

According to the study, people fall into one of three categories: 33% have a plan in place to achieve their goals, 31% have thought about it in great detail, and 34% have thought about it somewhat but have yet to start. Fidelity also noted that “simply taking steps to visualize a plan for your retirement can lead to a greater sense of confidence and control.”

What’s also noteworthy is that the key considerations or ingredients for a “plan” differ by generation. Retirees, for instance, should be looking at 1) their target asset mix: how they should be investing to maximize the likelihood of reaching their goals; 2) their retirement income: when to claim Social Security and where their money is going to come from; and 3) retirement expenses: what kind of lifestyle can they afford to live in retirement.

While those just getting started will focus more on how much they should save towards retirement and what accounts they should be putting their savings into.

Fidelity also tested Americans on their understanding of important retirement guidelines, such as how much to save for retirement, how much to withdraw annually in retirement, the cost of out-of-pocket health care expenses, and knowledge of Social Security. Surprisingly, only 17% correctly identified their full retirement age (FRA), Fidelity noted.

So, what are some important retirement rules of thumb that Fidelity and others say are worth following?

Save at Least 15%

More than a few financial planners recommend saving at least 15% of gross income toward retirement. “Saving 15% of your income, including any employer match, in a retirement plan should enable you to live a lifestyle in retirement that is similar to your pre-retirement lifestyle,” said John Cooper, a certified financial planner with Greenwood Capital.

Watch Your Asset Mix

You want to make sure your money's working for you, said Ridolfi. “You want to make sure you have the right mix of stocks, bonds, and cash based on your timeframe and your risk tolerance.”

For many, that might mean investing in a target-date fund, which among other things makes it easy to rebalance one’s portfolio. “The most challenging thing for people is really the rebalancing part of your asset mix,” said Ridolfi. “So target-date funds are a great vehicle to save in.”

X Times Your Salary Saved

Fidelity recommends having saved 10-12 times your last full year of working income by the time you reach retirement.

Jon Ulin, CEO of Ulin & Co. Wealth Management, said his favorite rule of thumb is “target your savings number” for retirement. His advice is to aim to save at least your annual income by age 30, three times your annual income by 40, six times by 50, 10 times by 60, and 13 to 15 times your annual income by age 65. “Not knowing your destination or goal for a 30+ year retirement is like traveling through a foreign city without a map or GPS,” he said. “Knowing how much you will need in liquid, lump-sum savings as part of your total net worth, can help you better determine your shortfall along with actionable items to take to help get on track.”

Brandon Opre, a certified financial planner with TrustTree Financial, also targets having a multiple of income set aside by certain ages. In his case, he recommends having five times your gross income saved as a retirement nest egg by the time you are 50 years old.

For example, someone making \$100,000 a year at age 50 should have at least \$500,000 saved for retirement. “Age 50 should give most parents enough time to catch up,” he said. “If they don't have 5x saved by 50, well, it's time to boost savings since they are probably behind at that point.”

Leon LaBrecque, a certified financial planner with Sequoia Financial, has a similar but slightly different take on the savings as a multiple of salary rule of thumb. It's the 25/33 rule. “You should have 'critical capital' of 25 times your annual need above pension and Social Security,” he said. “If you need \$40,000 a year, you should have \$1 million. If you're very conservative, have 33 times. This equates to a 4% real rate of return - the 25 and a 3% real rate of return. If there is inflation, and there will be), you have an inflation adjustment built-in.”

Cash Reserves

Besides having a multiple of your salary in your nest egg, James Sexton, a certified financial planner with Western Reserve Capital Management, recommends having several years' worth of cash on hand. “Cash plays a seminal role in the retirement plan,” he said. “It's needed for access should the portfolio income temporarily decline, and is necessary for unscheduled or irregular expenses. Cash is not an investable asset.”

For his part, Justin Shure, a certified financial planner with Endeavor Strategic Wealth, recommends maintaining an adequate cash reserve but also establishing a home equity line of credit or HELOC as a backup to a cash reserve. This “can act as a backup to a cash reserve, and can be used to fund an unforeseen large expense,” he said. “Maintaining ample liquidity is a key to being comfortable in retirement.”

4% Withdrawal Rate

According to Fidelity, it's OK to withdraw 4% to 6% annually from your accounts in retirement.

Marianela Collado, a certified financial planner with Tobias Financial said her favorite rule of thumb is the 4% rule. She uses it just to ballpark how much should be accumulated to meet a

retiree's needs in retirement based on their lifestyle. "I do quick, back-of-the envelopes and take their total cost of living and divide by 0.04 to give folks a ballpark of how much they need before retiring." So, \$60,000 total cost of living means that a person needs to have \$1.5 million to be able to replace their salary from the portfolio, she said.

Other planners also favor withdrawing no more than 4% from one's retirement nest egg. Karen Wawrzaszek, director of financial planning at SBSB Financial Advisors, recommends not spending more than 4% of your portfolio in a given year."

Healthcare Expenses in Retirement

The average out-of-pocket healthcare expenses throughout retirement for a couple retiring at 65 is \$295,000, according to Fidelity.

"You want to understand your healthcare costs when you're planning for retirement," said Ridolfi. "You want to factor (that) into your expenses when you're planning for retirement.

Consider too, if able, contributing to a health savings account to fund healthcare expenses in retirement, Ridolfi said.

Claiming Social Security

Claiming Social Security benefits any time before you reach your full retirement age can lock in a permanent reduction in monthly income.

Social Security and Divorce

One's Social Security benefit is not reduced if an ex-spouse claims some of their Social Security benefits.

Avoid Social Media

We advise, said Ian Weinberg, the CEO of Family Wealth & Pension Management, retirees to ignore the noise coming out of Reddit, chat rooms, short-term trading discussions, and the like.

"They need to be reminded that at this stage their investments have grown to a 'critical capital' mass which they can't afford to take the risk of investing in something that could create a total unrecoverable loss," he said. "We encourage them to stay invested in quality stock holdings when things get volatile because those companies have great probabilities of recovering from down cycles, but a lot of the ideas being floated around today on major financial shows and sites are talking about short term or even day trading, with no fundamental basis for investing."

In addition to avoiding social media, some experts avoid paying attention to the daily ups and

downs in the market. “You're not going to liquidate your entire retirement savings in a few months, so try not to pay so much attention to the market,” said James Sexton, a certified financial planner with Western Reserve Capital Management. “If the stock market declines for months or years at a time, the income that your portfolio generates should help support your income needs, if it is allocated properly. Bear markets don't last forever, so the fear that you are going to run out of money is probably not grounded in reality.”

Retire With No Debt

According to Clark Randall, the founder of Financial Enlightenment, the most important universal rule of thumb is this: The most successful retirement is one with no debt. “I suggest that you pay off all personal debt prior to retirement,” he said.

David Jackson, a certified financial planner with Modern Horizons Wealth Advisors, shares that point of view. “Eliminate as much debt as possible before retirement, especially consumer debt,” he said.

Three Phases of Retirement

Think, said Marisa Bradbury, a certified financial planner with Sigma Investments, of the first 10 years of your retirement as the “go-go” years, years where you travel a lot and be very active, and might have higher costs.

Think of the second 10 years as the “slow-go” years. You’ll still be traveling but not as much and your costs might change.

And then the last 10 years are the “no-go” years. Travel will be minimal and you might have more costs associated with help around the home, said Bradbury.

Jackson also said retirees should expect to spend more in the early years of retirement than the later years, the go-go years versus the slow-go years.

Calculating Your Asset Allocation

For many years, investors would subtract their age from 100 to determine how much to invest in stocks and bonds. So, a 65-year-old would invest 55% in bonds and 45% in stocks (100-65=45).

But that’s a rule of thumb that Collado hates. “That is a sure way to shoot yourself in the foot because, in today's interest rate environment, this won't work,” she said.

Be SMART

Ulin also recommends incorporating SMART goal planning for your six- or seven-figure retirement savings number. “By making sure the goals you set are aligned with the five SMART criteria -- specific, measurable, attainable, relevant, and time-bound -- you have an anchor on which to base all of your focus and decision-making,” he said.

Can You Buy it Twice?

Wawrzaszek has another uncommon rule of thumb she uses with her clients. “Don't buy it unless you can buy it twice,” she said, referring to major items like second homes and big toys.