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This Issue:

How Market Cycles Can Impact Retirements

Sequence of returns can play a role in your overall portfolio

A thoughtful retirement strategy may help you pursue your many retirement goals. That strategy must consider many factors, and here are just a few: your income needs, the order of your withdrawals from taxable and tax-advantaged retirement accounts, the income tax implications of those withdrawals, and sequence of return risk.

Just what is the sequence of return risk? In brief, it is the risk that market declines in the early years of retirement, combined with steady withdrawals, could reduce your portfolio's outlook.

A recent CNBC article mentioned how sequence of return risk can affect retirement accounts. It used a 20-year example – someone retiring in 2000 with $1 million in an account tracking the

Getting (Mentally) Ready to Retire

Even those who have saved millions must prepare for a lifestyle adjustment.

A successful retirement is not merely measured in financial terms. Even those who retire with small fortunes can face boredom or depression and the fear of drawing down their savings too fast. How can new retirees try to calm these worries?

Two factors may help: a gradual retirement transition and some guidance from a financial professional.

An abrupt break from the workplace may be unsettling. As a hypothetical example, imagine a well-paid finance manager at an auto dealership whose personal identity is closely tied to his job. His best friends are all at the dealership. He retires, and suddenly his friends and sense of purpose are absent. He finds that he has no compelling reason to leave the house, nothing to look forward to when he gets up in the morning. Guess what? He hates being retired.

On the other hand, if he prepares for retirement years in advance of his farewell party by exploring an encore career, engaging in varieties of self-employment, or volunteering, he can retire with something promising ahead of him. If he broadens the scope of his social life, so that he can see friends and family regularly and interact with both older and younger people in different settings, his retirement may also become more enjoyable.

The interests and needs of a retiree can change with age or as he or she disengages from the working world. Retired households may need to adjust their lifestyles in response to this evolution.

Practically all retirees have some financial anxiety. It relates to the fact of no longer earning a conventional paycheck. You see it in couples who have $60,000 saved for retirement; you see it in couples who have $6 million saved for retirement. Their retirement strategies are about to be tested, in real time. All that careful preparation is ready to come to fruition, but there are always unknowns.

Some retirees are afraid to spend. They fear spending too much too soon. With help from a financial professional, they can create a strategy.

Retirement challenges people in two ways. The obvious challenge is financial; the less obvious challenge is mental. Both tests may be met with sufficient foresight and dedication.

- Barbie

returns of the S&P 500, making withdrawals of $40,000 a year that increased 2% annually in view of inflation.

In 2000, a bear market began. The 37% pullback for the S&P 500 that occurred in 2000-02 would have reduced the $1 million account to about $470,000 by January 1, 2020, the end of the 20-year period.

The balance reflects the annual withdrawals of $40,000 and the 2009-20 bull market.[1]

Now, if the order of yearly returns were flipped, the portfolio would show much different performance. At the end of the 20-year period, the retiree would have had more than $2.3 million in that account after the exact same schedule of income distributions.[1]

It's critical to point out that investing involves risk, and past performance does not guarantee future results. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

States Are Requiring Retirement Plans

Will new mandates solve an old financial problem?

Too many Americans save too little for retirement. This problem has been discussed for decades in all kinds of media, and there seems to be no easy way to solve it.

Fourteen states are giving it a try, however: they have passed or introduced laws requiring or urging companies to provide retirement savings opportunities to employees. In most of these 14 states, employers must either sponsor a retirement plan, or automatically enroll their workers in a state program.[1]

Payroll giant ADP notes that a majority of states have considered mandatory retirement saving programs. A similar mandate is being discussed on Capitol Hill: H.R. 2954, informally called SECURE ACT 2.0, would require employers to auto-enroll employees in workplace retirement plans. This bill stalled in Congress in 2021, but the House and Senate are likely to revisit it this year.[2,3]

California and New York are among the states now stipulating worker enrollment.

By June 30, 2022 any private employer in California with more than five full-time employees (FTEs) must offer those FTEs a retirement savings program, enroll them in the new CalSavers retirement plan, or face fines after 90 days of non-compliance. New York now requires most businesses and non-profits with ten or more employees to either provide retirement savings choices for them or auto-enroll them in the New York State Secure Choice Savings Program.[1,4]

In Vermont and Washington, the employer mandate is voluntary. In all 14 states, employees have the right to opt out of the state-run retirement programs.[1]

Will efforts like this solve the problem of inadequate retirement saving? Not entirely. Only about 50% of Americans participate in employer-sponsored retirement programs. Tens of millions of Americans lack access to any kind of retirement plan.[5]

Even if SECURE Act 2.0 becomes law, its automatic enrollment stipulation would not be retroactive. Automatic enrollment would only be a requirement for new workplace retirement plans, not those created in the past. It could also allow employer-sponsored retirement plans to set a deferral rate as low as 3%, and many financial professionals would like to see savers direct greater percentages of their earnings toward retirement.[5]

The list of states with retirement program mandates either live or oncoming includes California, Colorado, Connecticut, Illinois, Maine, Maryland, Massachusetts, New Jersey, New Mexico, New York, Oregon, Vermont, Virginia, and Washington. Twenty-one other states have introduced bills into their legislatures that could create similar requirements.

-Jim

Taking Charge of Your Financial Life

Delegating responsibilities to others may lead to problems down the road.

When you are putting together a household, it isn't unusual to delegate responsibilities. One spouse or partner may take on the laundry, while another takes on the shopping. You might also decide which one of you vacuums and which one of you dusts. This is a perfectly fine way to divvy up household tasks and chores.

One household task it's valuable for both partners to take part in, however, is your shared financial life. It's important, regardless of your level of wealth or stage of life. Counting on one spouse or partner to handle all financial decisions can create a gap for the other partner. Should the one in charge of the money separate, become severely disabled, or pass away, that may leave the other partner in a bind. A situation like that is probably difficult enough without adding additional stress.

Begin the conversation. If you are the partner who isn't steering the household finances, ask yourself why. It may be that you have preconceived notions about how difficult it might be to educate yourself to make informed decisions. Maybe you know how to do it, but you would simply rather not be bothered. It's also possible that you recognize that your spouse or partner has a particular expertise in these matters and doesn't need your help.

Regardless of the reason, it's probably a good idea that you should at least be able to hop into the driver's seat, should misfortune strike your household. In that unfortunate circumstance, you should feel confident that whatever the reason or the duration, you won't have any unnecessary concerns about managing your household's finances.

For example, what if you have insurance that covers extended care, in case of a severe injury that causes your spouse or partner to be away from work for an indefinite period? How will you be certain that the claim is made? Who will make sure the bills get paid? The job will fall to you.

Getting involved. The good news is that through communication, regular conversations, and a little effort, you can probably learn what you need to know in order to help yourself in these situations. Part of this, too, may be meeting and getting to know the financial professional who works for your household.

The more knowledge you have, the more confident you can become. Starting the conversation is just the first step. It may take you some time to become comfortable in taking a greater role in the decision-making, but when you do, you may feel more confident if the responsibility ever falls solely to you.

-Shawn

The S&P 500 Composite Index is an unmanaged index that is considered representative of the overall U.S. stock market. Individuals cannot invest directly in an index, and index performance is not indicative of the past performance of a particular investment.

In retirement, it is vital to address risk and volatility. You have less time and may have fewer opportunities to rebuild your savings. Fortunately, there are ways to address the challenge of sequence of return risk and manage your portfolio risk while looking for opportunities.

-Mico

Fun Facts about Golf

- The longest drive ever was 515yds by Mike Austin in 1974 with a wood driver.
- Over 300 million golf balls are lost or discarded annually.
- The traditional 18-hole course was created at Old Course at St. Andrews in 1764.
- 80% of golfers will never have a golf handicap under 18.
- The 2022 Masters will be held in Augusta, GA from 4/7 - 4/10.

IWM PARTNERS
Your Wealth, Your Legacy, Your Partner

3 Park Plaza Suite 1490
Irvine, CA 92614
714.962.8000
714.962.7853 fax
www.IWMPartners.com

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Young Investors & Market Volatility?

IWM Quick Tips

It is most important to know your timeframe of investing...One thing you want to focus on is "TIME IN" the market is much more important that "TIMING"

Dollar-Cost-Averaging, or systematically putting a specific dollar amount each week, month, or quarter will reduce the exposure you have to short term volatility.

Making contributions to your accounts can be seen as a forced payment, which is a great way to adapt to your income, while simultaneously saving a nest egg for whatever comes next!

Give us a call to discuss Dollar-Cost-Averaging today!
(714) 962-8000