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Speaker 1

Welcome. My name is Andrew Baron, and this is Well, it Depends! The podcast where I present the pros and cons of different financial decisions so that you, the audience, feel better informed when you are confronted with these decisions in your own life. In this episode, I ask the question, Can I still retire if there is a market downturn or a recession?

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Speaker 1

But before we begin, a short disclaimer. This is being recorded on June 30th 2022. The contents of this podcast are strictly for informational purposes only. And nothing said should be taken as investment, tax or legal advice. Any strategies discussed may not be suitable for the listeners specifically. And so we strongly encourage consulting with your advisor before implementing any strategies to ensure they meet your individual objectives.

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Speaker 1

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Speaker 1

Getting into it. Can I still retire if there's a market downturn or a recession? Well, it depends. Perhaps you sat down December 2021 and thought, You know what? Now is the time to retire. You had seen your investment accounts grow, you had seen your home values skyrocket, interest rates were low, and you may have figured another year of things generally continuing upward.

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You should be on Easy Street by the end of 2022. Flash forward to about halfway through the year. Instead we have high inflation. Russian Ukraine war. The stock market has fallen double digits. Gas and

food prices are way up and you might be rethinking your timing. Well, we're here to review that and help all of our listeners.

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The obvious first question is can you financially provide for your lifestyle in retirement? Many people want to know a number, perhaps a monthly amount that they can spend in retirement. But instead of fixating on how much you can spend in retirement and trying to constrain yourself to that, we tell our clients to focus on accomplishing the things they want to do in retirement.

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Speaker 1

Your retirement costs need to consider any major gifts you're going to make to children for weddings or down payments on a first home or future gifts for the grandchildren down the line, additional fees. You are unlikely to be as active in your eighties and nineties as you are earlier in your retirement, like your sixties and seventies. If travel is an important part of your plan, you need to anticipate when you're going to take those trips and how much they are going to cost. A good retirement plan will consider these events.

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Speaker 1

In addition to the day to day costs, Social Security is an anchor for most Americans and retirement. So another good question to ask is what are your Social Security benefits? Originally set up in the 1930s, the program takes a percentage of your income to pay out benefits at age 66 to 67, depending on the year you were born.

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You reach full retirement age, which entitles you to your full benefit amount. If you take it early, you'll get a little less and if you delay it beyond your full retirement age, you'll get a little more. It's important to consider your spouse's option and your own together. It may make sense to delay one Social Security benefit to maximize it while taking another now to provide some income. Every situation is different.

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Speaker 1

Remember, Social Security was never intended as the only income in retirement. That's why we have all of these retirement accounts. You might know them under the names of 401K, 403B, and the many IRAs following the 4% withdrawal rule, we can adequately fund retirement for 30 years. Additional legs of the stool are pensions for those who are still lucky to have them.

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Speaker 1

And our traditional savings and taxable investment accounts between all of these income streams need to be able to cover your day to day costs while factoring for those high cost one off events like big trips or gifts. When you're making these calculations, you might see that there's a shortfall, especially if you were looking at your accounts when the stock market was still way up.

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Speaker 1

If there's a big gap, you may not be able to retire this year. And you might need to wait until your account values come back. The good news is that if you keep saving through the downturns, your accounts will be that much higher when you are ready to retire. What if you're retiring early? Watch out for health care costs.

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Speaker 1

If you are retiring before age 65. This is often the biggest hurdle for retirement for many Americans, unless they happen to be covered by a former employer plan or otherwise. Additionally, you need to have sufficient assets to support your retirement. If it's longer than 30 years. A 2% withdrawal rate is extremely sustainable. Over the long term, assuming it's properly managed and invest it.

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Speaker 1

Next question to ask yourself is What does it mean to be retired? Does that mean more downtime, more travel, more leisure activities? Maybe it means more time with the kids and grandkids. Maybe it means additional volunteer work and getting better involved with your community. Or maybe it means pursuing a new hobby or picking up an old one in any case, I hope you're able to visualize what retirement looks like.

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It's important that we are retiring to something and not just retiring from something to live work. In that same vein, the next question is do you want to retire or do you just need a change? Maybe you need a new job, start your own business, maybe you want to work in consulting maybe you just need to reduce your hours and switch to part time or seasonal work.

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Speaker 1

Or maybe you're burnt out and just need a long vacation. There is an important distinction between a formal retirement and just needing a shakeup. It can be difficult to return to the workforce after a significant break, especially later in life. So I emphasize, considering the distinction, really take a moment to think about what's important to you. To recap questions, to ask yourself, Do I know what I want to do in retirement?

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This is the big one. Like I said earlier, it's important to know what your plans in retirement are and that you aren't just trying to leave your current employment. Next question: Am I financially prepared for retirement? Do I understand my Social Security options if retiring before age 65? Do you have a plan for health care insurance? Do you really want to retire or do you just need a change?

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Speaker 1

So to answer the question, can I retire if there's a downturn? Well, it depends!

*Speaker 1 = Andrew Baron, CFP®, Enrolled Agent, Associate Advisor