CORNERSTONE
Independent Asset Management

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PARTICIPANT PERSPECTIVES

HOW EXPOSED ARE YOUR RETIREMENT SAVINGS TO MARKET RISK?

Retirement plan savings can be exposed to risk during periods of market volatility. While no strategy offers a guarantee against losses, some strategies can help with managing the risks.

Market volatility is an inherent part of investing and places investors at risk for lost capital. Investors confront several different types of risks, including market, inflation, and interest rate risks. Market risk is one that all investors, but especially those investing for retirement, should understand and prepare for. Essentially, market risk is the risk that the prices of securities may fall due to external factors like economic changes, world events, or investors' expectations and outlook. Stock investors are most likely to be impacted by market risk.

As traditional pension plans become less common, households with investments in 401(k) and other defined contribution plans increasingly bear the full brunt of stock market turmoil. Declines in major stock market indexes, such as the S&P 500, the Dow Jones Industrial Average, and NASDAQ, occur relatively frequently and have experienced dramatic declines over the last half century. In February-March 2020, during the early months of the COVID-19 pandemic, the value of equities in employer-sponsored retirement plans and household portfolios fell by $14.2 trillion.[1] While the stock market subsequently recovered, ongoing volatility continues to expose retirement plan assets to risk.

MANAGING MARKET RISK

While all investors must temper their hopes for gains with the realization that the market can also deliver

[1] Center for Retirement Research, Boston College, Issue Briefs, June 2020, *How Exposed are Retirement Savings to Market Risk?*

losses, there are steps you can take to minimize both the potential for and the impact of capital losses. While there are no guarantees against loss, some strategies can help with managing the unique risks associated with market losses.

ASSESSING YOUR RISK TOLERANCE

Your tolerance for investment risk is your ability to accept the chance of losses from an investment in return for the possibility of higher returns. You can measure your risk tolerance by answering several questions:

1. **When Will I Need the Money?**

   If your target retirement date is a decade or more away, you may be able to accept more investment risk. Having time on your side allows you to recover from a significant market dip. However, if retirement is close, you may benefit from a lower portfolio allocation to stocks and increased exposure to bonds and cash equivalent investments. This approach focuses on generating a modest return while also helping preserve any investment gains.

2. **Would a Big Financial Loss Derail My Future Plans?**

   Ask yourself what would happen if your portfolio were to decline 15%, 20%, or 30% in value? Would a loss of that size force you to postpone buying that dream retirement home or delay your planned retirement date by a year or more?

3. **How Large a Loss Can I Handle?**

   Many investors overestimate their ability to handle financial loss. But putting the loss in real dollar terms can provide you with a better understanding of your tolerance for investment risk. Ask yourself: What if your $450,000 retirement plan portfolio fell by $45,000 or more following a severe market correction? What other assets, if any, do you or your spouse have saved for retirement?

IMPLEMENTING RISK MANAGEMENT STRATEGIES

Understanding your investment time frame, risk tolerance, and other assets you have available for retirement can help you take measures to protect your portfolio against market turmoil. The key to successful investing is achieving a balance between risk and potential reward. You can accomplish this by maintaining a well-diversified portfolio and an appropriate asset allocation strategy.*

- **Diversification:** Diversification helps you manage risk by spreading your plan assets among a broad mix of different investments. This allows you to take advantage of the fact that securities do not typically move in the same direction at the same time. Therefore, strong performance of one investment can offset weak performance of another.
- **Asset Allocation:** Spreading your portfolio among different asset classes, an approach known as asset allocation, takes diversification a step further. Investors with a higher risk tolerance may opt for a relatively large stock allocation to increase return potential. On the other hand, investors with a lower risk tolerance may choose a more conservative asset allocation.

The experience of a financial professional can help you craft a strategy to protect your retirement savings from market turmoil.

* Asset allocation and diversification do not ensure a profit or protect against losses in a declining market.

PLAN TO WORK PAST RETIREMENT AGE?

Consider the pros and cons of working past the traditional retirement age when planning for your retirement.

Of the more than 34 million Americans age 55 and older employed in 2020, over nine million were age 65 and older.[2] People continue working past the traditional retirement age for a variety of reasons: Some enjoy what they do; their work gives meaning to their lives, helps fill their days; and they appreciate the company of coworkers. Others simply cannot afford to retire. And there are those who choose to continue working to take advantage of employer-provided benefits or to keep growing their retirement savings.

[2] U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.

THE FINANCIAL BENEFITS OF WORKING LONGER

Delaying retirement can yield significant financial benefits:

- Regular paychecks
- Potential for overtime and bonuses
- Ongoing contributions to a retirement plan
- Continued access to employer-provided benefits, such as health care coverage
- Additional payments into the Social Security system, which can increase Social Security benefits

POTENTIAL ROADBLOCKS TO RETIRING LATER

Not everyone will be able to continue working. Some will leave the workforce earlier than expected due to:

- An illness or disability
- The need to care for a spouse or other family member
- A downturn in the economy and the job market
- A mismatch of skills and available job openings

PREPARING FOR ALL SCENARIOS

Many people reach retirement age and find that they can't afford retirement, yet discover that there are limited opportunities for post-retirement-age work. That's why it's important to use your earning years to save for retirement. Irrespective of how much you earn, focus on making regular contributions to your employer-provided retirement plan or to an individual retirement account.

The reality is that your annual income in retirement may not be much different from your current income — especially if you anticipate a lifestyle that involves frequent travel or expensive hobbies. When evaluating your potential retirement income needs, consider these factors:

- Your retirement may last well into your 90s.
- Inflation will lead to higher prices.
- Health care costs could increase as you age.
- Social Security will only cover a portion of your expenses.

TALK WITH A FINANCIAL PROFESSIONAL

Your financial professional will examine your contribution levels and your investments to identify any gaps in your current strategies. You may need to boost your retirement plan contribution percentages and reevaluate your current investment selections and asset allocation* to afford the type of retirement you want.

* Diversification and asset allocation do not ensure a profit or protect against loss in a declining market.

THE UNIQUE FINANCIAL CHALLENGES FACING WOMEN

This section explores the financial challenges women face in retirement and identifies ways to overcome these obstacles.

Women have made significant strides in the last several decades when it comes to educational opportunities, career choices, and financial clout. In fact, women-owned businesses serve as one of the primary springboards to personal wealth. Increased representation at the highest levels of corporate, legal, medical, and government professions have also helped many women achieve wealth and success.

However, women still face significant economic challenges on many levels. In particular, the issue of retirement security is one that presents numerous problems. Consider the following statistics:[3]

- Single women over age 65 earn about $10,000 less than their male counterparts.
- Only 39% of women are confident they'll have the financial resources to last 25 years into retirement, compared to 54% of men.

Longer life expectancies for women underscores the need to amass larger nest eggs. There are a variety of factors at play that contribute to the precarious financial health of women in retirement. Identifying these factors is a critical first step in finding workable solutions.

LOWER AVERAGE EARNINGS

Most data concludes that women earn 80% of what men earn. In 2019, the median earnings of working-age

[3] Morningstar, 100 Must-Know Statistics About Women and Retirement, March 3, 2021.

women who worked full-time, year-round were $42,692 compared to $52,364 for men.[2] Women's lower lifetime earnings mean they have less money available to save for retirement.

FEWER YEARS IN THE WORKFORCE

Women tend to spend fewer years in the workforce because they are more likely to put their careers on hold to raise children or to care for elderly parents. These work-life interruptions typically result in lower lifetime earnings and can adversely impact career opportunities. It also means that these women don't receive the full benefit of their employer-sponsored retirement plans. Time out of the workforce means missed opportunities to contribute to a retirement plan and take advantage of employer matching contributions.

HIGH RATES OF PART-TIME EMPLOYMENT

There are also higher rates of part-time employment among women, making it more difficult to meet employers' eligibility requirements for retirement plans. Additionally, salaries from part-time work typically leave workers with little financial room to set aside money for retirement through an individual retirement account (IRA) or similar savings vehicle.

THE DECLINE OF PENSION PLANS

While the decline in corporate-sponsored defined benefit pension plans impacts all workers, it is more significant for women due to longer life expectancies. Defined benefit plans are commonly offered in the education, health care, and public administration sectors. As a result, women who work in these industries typically have higher retirement incomes and lower rates of poverty.

LOWER SOCIAL SECURITY PAYMENTS

Time away from the workforce and lower earnings can result in reduced Social Security retirement benefits. Consider the following:

- In 2019, the average annual Social Security income received by women 65 years and older was $13,505, compared to $17,374 for men.
- For unmarried women, including widows, age 65 and older, Social Security comprised 47% of their total income in 2019.
- Among unmarried elderly men, Social Security comprised only 34% of their income in 2019.[3]

SOLUTIONS

There is no simple way to address this challenge. However, according to the NIRS, a combination of policy and legislative changes could enhance the potential for increasing the retirement security of all working women. These include:

- Increasing retirement plan coverage through auto enrollment in individual retirement accounts
- Increased development of state-sponsored savings plans
- Increasing defined contribution plan eligibility for part-time workers
- Expanding use of the Saver's Credit
- Strengthening Social Security benefits for women
- Expanding defined benefit pension plans

THE BOTTOM LINE

It's important that women prioritize retirement savings with the resources they currently have available. With the right information, women can take steps to mitigate the risks and make choices to help empower financial success.

[3] Morningstar, 100 Must-Know Statistics About Women and Retirement, March 3, 2021.

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