



SMART INSIGHTS FROM FINANCIAL PROFESSIONALS

Will a Recession Affect Your Retirement? How to Take Action

A bear market or an economic downturn can be scary, especially for retirees. However, solid financial plans are built to withstand these challenges. Here's how.

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News headlines give anyone saving for retirement plenty to worry about. Inflation. **High gas prices**¹. Rising interest rates. Rumbblings of a possible recession. It's enough to make even the savviest investors wonder if they'll outlive their money.

But worrying is no way to live your life — and definitely not a way to live your retirement.

While we can't predict how the market will behave, we can create a holistic financial plan built to minimize volatility and economic uncertainty.

As an example, let's say the market drops and your IRA's value drops too. In such a scenario, ask yourself: Did this affect your overall retirement plan? It shouldn't if that plan accounted for recessions and growth as normal parts of the economic cycle.

Here are a few things that will help you create a retirement plan that's ready to endure those market ebbs and flows:

TAKE CONTROL OF YOUR TAX PLANNING

If Congress doesn't act, those 2017 tax cuts are scheduled to come to a jarring end at the close of 2025, which means rates would return to their previous level in 2026. You can look at this as a reason for anxiety, but there's also an opportunity. Before this happens, you should consider taking advantage of these historically low tax rates by **converting your tax-deferred retirement accounts to Roth accounts**².

You do pay taxes when you make the conversion, but if you start now, you can do so in increments while tax rates are lower. But what if you are in a situation where your **IRA has temporarily lost value**³? As an example, let's say a \$1 million IRA dropped to \$900,000. Your instinct might be to wait for a market rebound before you convert to a Roth, but why wait? You have less to convert, which means

less to pay taxes on. When the market recovers and that IRA's value takes a leap upward, the leap is tax free.

CONSIDER THIS POWERFUL BOND ALTERNATIVE

A traditional investment mix many people feel comfortable with is 60% in stocks and 40% in bonds. The concept behind this particular balance was that when stocks went up, typically bonds went down, and vice versa. That's excellent in theory. But recently, stocks and bonds have been moving in lockstep. And we can expect to see losses continue as interest rates rise. What should investors consider as a bond replacement?

Consider **fixed-indexed annuities**⁴ as a substitute for bonds. A fixed-indexed annuity acts as a stabilizer in your portfolio because you can't lose your principal. Also, when the market starts to return, it will gain in value.

You shouldn't go all in on annuities (or anything else for that matter). Instead of that traditional 60-40 split, you might consider 10% in bonds, 30% in fixed-indexed annuities and 60% in equities.

BE STRATEGIC WITH STOCK INVESTMENTS

Speaking of that 60% in equities, as you consider the specifics of your stock investments, a good option is **exchange-traded funds (ETFs)**⁵. These provide diversification and more strategic choices. Stocks that pay a dividend also are worth exploring since they can provide an additional income stream.

These are just a few ways to begin creating a retirement plan designed to absorb market and economic volatility. A truly holistic financial plan is designed to hedge against a market downturn or uncertainty. In fact, those downturns are actually built into the plan. If the pieces are truly integrated, then if one is not performing, another kicks in to offset it.

