What Can I Do to Retire Confidently During Market Uncertainty?

While significant market downturns can cause distress, you may find comfort in knowing that just a couple years of patience and spending adjustments could go a long way toward your overall retirement success.

KEY INSIGHTS

- It's important to regularly reassess where you stand against your financial goals.
- Develop a retirement budget to determine essential expenses and income sources.
- Keep cash reserves available before and during retirement.
- Be flexible about your retirement. Working longer, part-time work, or spending adjustments can help to keep you on track.

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When financial markets are disrupted, it may make us fearful for our financial well-being. You may feel like you need to do something different with your investments if you're planning to retire soon or if you've recently retired. However, what's in the headlines doesn't necessarily correspond directly with the performance in your portfolio. If you're appropriately diversified, you are likely experiencing less significant drops than the market overall.

For example, consider 2022: The S&P 500 Index (composed only of stocks) dipped into bear market territory, dropping about 18%, while a 60%/40% mix of stocks and bonds declined by 16%. Moreover, balanced portfolios have recovered faster than all-stock portfolios over bear market events. As the table on the next page shows, the markets historically have recovered—it's a matter of when.

While market volatility is beyond our control, you can be proactive and focus on the things you can control. Armed with the confidence that markets should recover, take a close look at your situation today and see what you can do in the short term to benefit your retirement strategy over the long term.

A Closer Look at Bear Market Duration and Recovery

Event	Tech Bubble Crash April 2000–October 2002		Global Financial Crisis October 2007–March 2009		Coronavirus Pandemic February 2020–March 2020		2022 Bear Market January 2022–September 2022	
Bear Market Duration	2½ years		1½ years		1 month		9 months	
Asset Allocation	100% stocks	60% stocks/ 40% bonds	100% stocks	60% stocks/ 40% bonds	100% stocks	60% stocks/ 40% bonds	100% stocks	60% stocks/ 40% bonds
% Drop	-49%	-23%	-56%	-33%	-34%	-22%	-24%	-20%
Recovery	5 years	2 years	4 years	2 years	5 months	4 months	2 years	2 years

Figures are rounded. Drop is based on the percentage drop from the highest market index value just prior to the correction to the lowest market index value. Recovery is defined as the length of time for the market to return to the previous highest market index value. Stocks are represented by the S&P 500 Index; bonds are represented by the Bloomberg U.S. Aggregate Bond Index. **Past performance cannot guarantee future results.** Index performance is for illustrative purposes only and is not indicative of any specific investment. Investors cannot invest directly in an index.

Source: T. Rowe Price.

1. Position your investment portfolio both for today and for the future.

If you're close to retirement or if you're a recent retiree, you'll want to continue holding a healthy allocation of stocks in your portfolio while introducing more bonds and cash as you get older. Doing so can help manage short-term volatility while also providing the growth potential necessary for a retirement that could last decades. Your specific allocation will depend on your risk tolerance and financial needs.

If you aren't appropriately allocated for your lifestage or risk tolerance, or if your allocation has drifted off course, now is a good time to think about how you might be able to adjust your portfolio to obtain a balance that could help you stay afloat during a market downturn. Look to make investment changes within your workplace plan or individual retirement accounts (IRAs), as changes will not result in a tax event. For gradual adjustments, consider directing future contributions to the investments within the asset class you'd like to increase.

2. Examine your expenses and develop a retirement spending strategy.

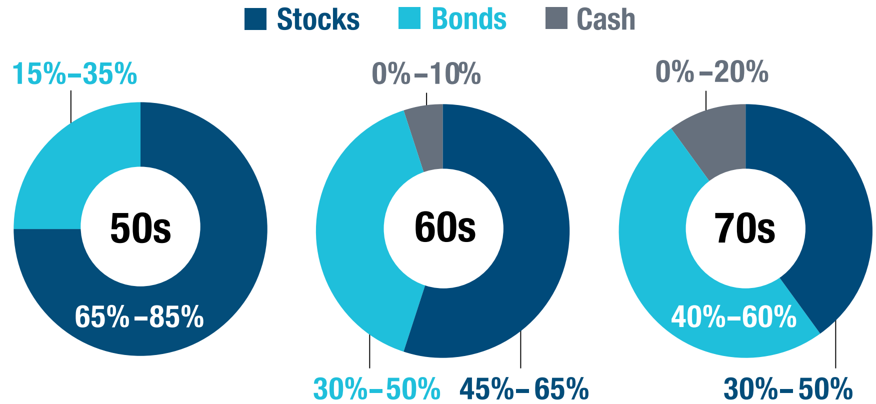
If you haven't already, take time to review your current expenses and determine how those expenses may change during your retirement. We suggest you consider planning to replace around 75% of your gross preretirement income at the onset of retirement in order to maintain your current lifestyle in retirement.

As you draw closer to retirement, you'll want to get a more specific idea of your actual spending needs. To start, take a look at how current retirees are spending their money. The top four expense categories for those age 65 and older are housing (35%), transportation (14%), health care (13%), and food (13%).[1]

If you're planning to retire soon, take time to assess income sources in retirement: Social Security, pension, or other predictable income. Then determine how reliant you might be on your personal savings or a paycheck if you decide you should continue working. Consider which of your retirement expenses are essential and

[1] U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2022. www.bls.gov/cex/

Asset Allocation in Your 50s, 60s, and 70s



Within Stocks: 60% U.S. large-cap, 25% developed international, 10% U.S. small-cap, 5% emerging markets
Within Bonds: 45% U.S. investment grade, 10%–30% U.S. Treasury, 10% nontraditional bond, 0%–10% high yield, 10% international, 0%–10% emerging markets
Within Cash: 100% money market securities, certificates of deposit, bank accounts, short-term bonds

how you might be able to make some adjustments. If additional spending adjustments are needed when markets are down, take another look at nonessential spending. It may only take a couple years of spending adjustments to give your portfolio time to recover.

Our research finds that, once you're in retirement, total household spending decreases by 2% each year. Many retirees may reduce their nondiscretionary or essential expenses and align them with their guaranteed income. By doing this, they lessen the likelihood of having a gap between their guaranteed income and these expenses so that they don't have to dip in to their savings to pay for the essentials.

3. Build up cash reserves.

Most likely, you have an emergency fund in place to help you get through periods of financial shock, such as loss of income or large, unexpected expenses. When you are heading into retirement, we recommend a cash buffer that could cover one to two years of spending needs. Having an alternative source available to fund expenses can be particularly helpful in a down market to give you cover until your investments rebound.

Consider holding these assets in a bank savings or money market account; short-term bond funds; short-term certificates of deposit (CDs); or, if you are in a high tax bracket, tax-free short-term funds. This money provides you with another way to pay bills so that you don't have to withdraw from your longer-term investments.

4. Be flexible about your retirement.

The 2020 pandemic introduced a new way of working for many industries. Hybrid and remote work opportunities may provide the flexibility to work longer than planned.

If you are fortunate enough to have some flexibility around your retirement date, consider how another year or two of earning a salary could affect your financial security. Use that time to pay down debt and increase your cash reserves. Additionally, waiting to claim Social Security benefits means a higher benefit amount throughout your retirement.

Even into retirement, the flexibility to increase income—whether through part-time work or finding innovative ways to turn a hobby or talent into extra money— can be rewarding.

5. Ask for help.

If you want to change your strategy or reevaluate your retirement plan going forward, it may make sense to talk with a financial advisor to review your options and some of the concerns you have about your future financial goals. Our research has shown that the demand for financial planning services is strongest among investors in the five years leading up to retirement and the five years into retirement.

Determine what aspects of your lifestyle are important to you now as well as what may be important to you going forward. Being prepared for the future and regularly reassessing where you stand against your financial goals can help keep you on track toward a successful retirement through market ups and downs.

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Asset allocation pie chart disclosure

These allocations are age-based only and do not take risk tolerance into account. Our asset allocation models are designed to meet the needs of a hypothetical investor with an assumed retirement age of 65 and a withdrawal horizon of 30 years. The model asset allocations are based on analysis that seeks to balance long-term return potential with anticipated short-term volatility. The model reflects our view of appropriate levels of trade-off between potential return and short-term volatility for investors of certain ages or time frames. The longer the time frame for investing, the higher the allocation is to stocks (and the higher the volatility) versus bonds or cash. While the asset allocation models have been designed with reasonable assumptions and methods, the tool provides models based on the needs of hypothetical investors only and has certain limitations: The models do not take into account individual circumstances or preferences, and the model displayed for your investment goal and/or age may not align with your accumulation time frame, withdrawal horizon, or view of the appropriate levels of trade-off between potential return and short-term volatility. Investing consistent with a model allocation does not protect against losses or guarantee future results. Please be sure to take other assets, income, and investments into consideration in reviewing results that do not incorporate that information. Other T. Rowe Price educational tools or advice services use different assumptions and methods and may yield different outcomes.

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