

WHAT SHOULD RETIREES WHO RELY ON PORTFOLIO INCOME DO IN THE ECONOMIC DOWNTURN?

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REMEMBER THE BASICS.

The coronavirus has been a sudden test of our disaster preparedness, and that's true on the personal financial front as well. During the last ten-plus years we've enjoyed an unprecedented economic expansion. If you're a retiree invested in retirement plans such as a 401(k) and IRA accounts, hopefully you have participated in that growth.

But this moment, and others like it, remind us of one of the basics of financial planning—emergency funds. When you need cash to handle the unexpected, you withdraw money from your emergency fund. Normally, we think of tapping into an emergency fund to help with a job disruption or a personal health crisis, but for retirees, this also means using the emergency fund as a source for weathering unexpected decreases in investment cash flow.

TAKE INVENTORY.

Consider your overall financial position and the stability of your income sources. Where your income comes from does matter in this market. While it's unclear how long our economy will be on pause, it's clear investments in some sectors of the economy will be more significantly impacted, at least in the short term, than others. Companies in industries such as hospitality, transportation, and energy have already announced dividend cuts—with more announcements from other industries likely on the way. Income from higher risk bond investments will also be under pressure as default rates increase.

DEFER, DEFER, DEFER.

Because we're all looking for ways to occupy our minds with something other than pandemic news, how about re-evaluate your budget, taking out items that you can live without. This doesn't mean we'll never enjoy a nice meal at a restaurant again, but it does mean we're getting some forced practice in distinguishing between a want and a need. So, if you don't have an emergency cash fund to handle unexpected expenses and regularly rely on investment income to make ends meet, prepare to defer as much spending as possible for the near term.

WHAT ARE YOU SELLING?

Maybe liquid funds are short. You need to raise cash. Remember—even with the market decline—you don't want to give up on equities or growth assets in general. In fact, this may be an especially poor time to sell investments that have just declined significantly. Again, take inventory of what you have; attempt to maintain the proportions you were comfortable with before the market downturn. Let's not miss the rebound when and if the market fully recovers.

WHAT ACCOUNTS ARE YOU SELLING FROM?

Work with your tax advisor to consider if the assets you need to sell should come from your after-tax investments or your retirement plan accounts. The CARES Act recently suspended required minimum distributions from retirement accounts, but that doesn't mean they're off limits for distributions. Your tax professional can help you consider if the gains/losses from selling after-tax investments is preferred to the ordinary taxable income generated from retirement plan distributions.

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Guy is a financial planner manager for Commerce Trust Company. He is a member of the financial advisory services team—a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, Guy develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax, and investment strategies along the way. With more than 20 years of financial planning experience, he is responsible for providing quality advice to clients and prospects of Commerce Trust. Holding both Certified Public Accountant and CERTIFIED FINANCIAL PLANNER™ designations, Guy's extensive experience in financial planning includes working for banking and accounting institutions as a financial planner and tax advisor. His expertise includes planning for financial independence, executive compensation, estate preservation, philanthropy, and business succession. Guy received his bachelor of administration in business and economics from Wheaton College. Additionally, he is a member of several organizations, including the Financial Planning Association and the American Institute of Certified Public Accountants. Guy speaks and writes regularly on financial issues and has served as a faculty member for ABA National Graduate Trust School.



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