How Long Will Your 401(k) Savings Last After a Market Crash?

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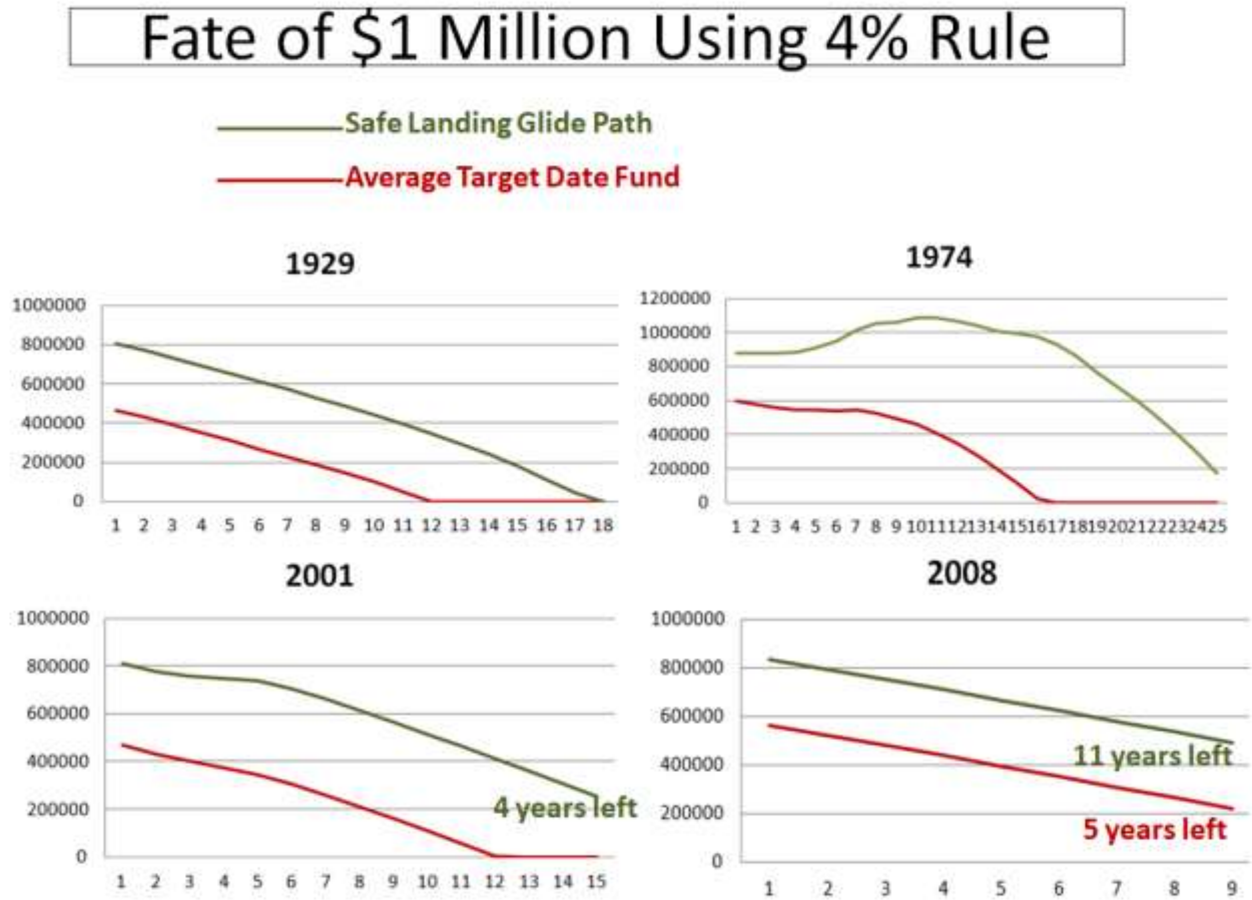
A few weeks ago I wrote "*How Much Could Your 401(k) Lose in the Next Market Crash?*" In this follow-up article I address savings longevity for those who retire into a market crash. Target date funds (TDFs) are sold with the objectives of replacing pay and managing longevity risk, but as you will see the longevity objective is not served if the beneficiary is unfortunate and retires near a market crash. By contrast, the Safe Landing Glide Path (SLGP) TDF has the objective of not losing money, especially near the target date. Because of these different objectives, the Average TDF ends at 55% in equities with the balance in long term bonds while the SLGP has less than 10% equities with the balance in Treasury bills and short term TIPS. The average TDF lost 30% in 2008 while the SLGP lost 5%.

The Results

We ran analyses on the 4 worst market crashes, hypothetically investing in the two different TDFs: Average and SLGP. The perspective is that a beneficiary with a $1 million TDF account is retiring when the crash occurs and then withdraws, investing in Treasury bills. This beneficiary uses the 4% Spending Rule designed to make his savings last. The following table and graphs summarize the fate of this beneficiary.

	Average TDF		SLGP TDF	
Crash	# of Years	Spending	# of Years	Spending
9/29-6/32	12	$460,000	18	$820,00
1/73-10/74	16	$1.1 million	25	$2.2 million
3/00-10/02	12	$565,000	19	$945,000
10/07-3/09	14	$615,000	20	$900,000



Conclusion

There is a well-documented Risk Zone that spans the transition from working life to retirement. Losses in the Risk Zone are devastating because account balances are at their highest and “Sequence of Return Risk” reduces the length of time that savings will last. There are currently 75 million Baby Boomers in the Risk Zone. Many are invested in target funds and individual Retirement Accounts (IRAs) that are 55% in equities with the balance in risky long term bonds. The next market crash will be exceptionally ugly in its impact on so many people. It may take a while, like 10 years or so, for these people to run out of money, but they will eventually become society’s burden.

Fiduciaries, namely advisors, are to blame.