$30 Trillion in Boomer Savings Needs Protection: The Next Market Meltdown Will Bring Lawsuits

- Risk management is tailored to beneficiary needs and circumstances. Timing is not risk management; it's betting on market moves.
- At this stage in their lives 75 million Baby Boomers should be protecting their savings and figuring out how to make them last a lifetime.
- Although they don't know it yet, Boomers are in jeopardy of losing much of their $30 trillion in savings when the next market meltdown occurs.
- Fiduciaries should protect Boomers as they transition from working life to retirement, but they are not, inviting lawsuits.
- The greater the harm in the next market meltdown, the greater the risk of lawsuit

As the stock market inevitably weakens, you see claims about the failure to offer a diversified and defensive lineup. Nancy Ross, ERISA attorney

According to Wikipedia, ***Risk management*** *is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events*. It's not easy. Somehow advisors need to get into their clients' heads to understand their risk tolerance and preferences. This is mostly art, although some believe that risk questionnaires can automate the process. Clients think their advisors will tell them the risk they need, since advisors are mind readers.

The second component, "*minimizing, monitoring and controlling*", is treated like science, but it's bad science as I explain in Broken Models. Age needs to be integrated.

Risk management is not timing

In other words, risk management is complex but very important because it is the basis for portfolio construction. Many confuse risk management with timing, but timing has little to do with client risk preferences and everything to do with market outlook. In the current market run-up, where U.S. stocks have earned more than 250%, there is great demand for crystal balls (like this one) that will tell us when to get out of harm's way. Risk management is called "Tactical" asset allocation while timing is called "Strategic." The idea is that risk management is independent of market outlook and set for the long run, whereas timing is short term and all about market forecasts.

Sometimes risk management is easy

Risk management and timing are both usually very hard, and require different skill sets, but there is a time in every client's life when risk management is easy and obvious, although most don't see it. It's a time when a special kind of risk is at its highest and that risk could ruin our clients' lifestyles for the rest of their lives. Unless we feel extraordinarily lucky we really should move our clients to safety during the Risk Zone that spans the transition from working life to retirement when Sequence of Return Risk peaks. Baby Boomers have $30 trillion in the Risk Zone. **At this stage in their lives they should be protecting their savings and figuring out how to make them last a lifetime**.

There are 75 million people in the Risk Zone

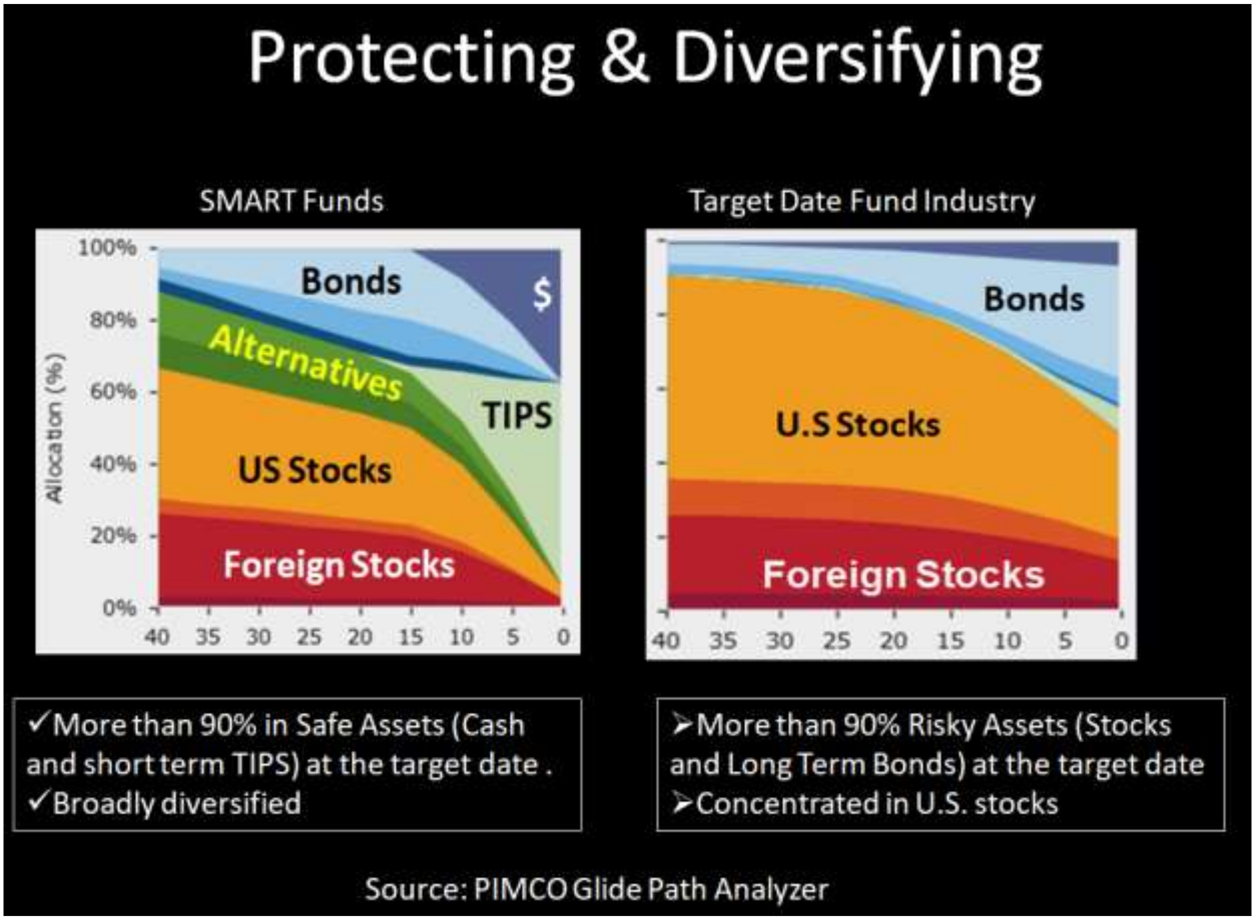
There is currently a first of a kind investment demographic in the U.S. population that will never happen again. 75 million Baby Boomers are all currently in the Risk Zone that spans the transition from working life to retirement. Losses sustained in the Risk Zone sacrifice lifestyles, even if markets subsequently recover. Most Boomers are unaware of this danger and are taking way too much risk at this time. Target date funds (TDFs) and individual retirement accounts (IRAs) are 55% in equities for those at or near retirement with most of the balance in risky long term bonds. This is riskier than the mix that lost 30% in 2008. It's a Bad Gamble. Regardless of your market outlook, Boomers should be very cautious at this time in their investment life. Compounding the danger of the Risk Zone, the market outlook is ominous and threatening.

The imminent market meltdown that many expect this year will harm Boomers much more than everyone else. Those outside the Risk Zone have a reasonable chance of recovering, just as they have recovered from 2002 and 2008, but Boomers are not so lucky, and like all of us, they only get to pass through the Risk Zone once. In other words, risk management argues for safety for Boomers, and so does market timing.

Don't let this devastation happen. Fiduciaries should protect Boomers at this critical time in their lives, even if a meltdown does not occur. Don't wait. History teaches us that the flight to safety happens after the damage is done, when it's too late. Risk management is not the same as market timing; reducing risk in the Risk Zone is the smart thing to do regardless of market expectations.

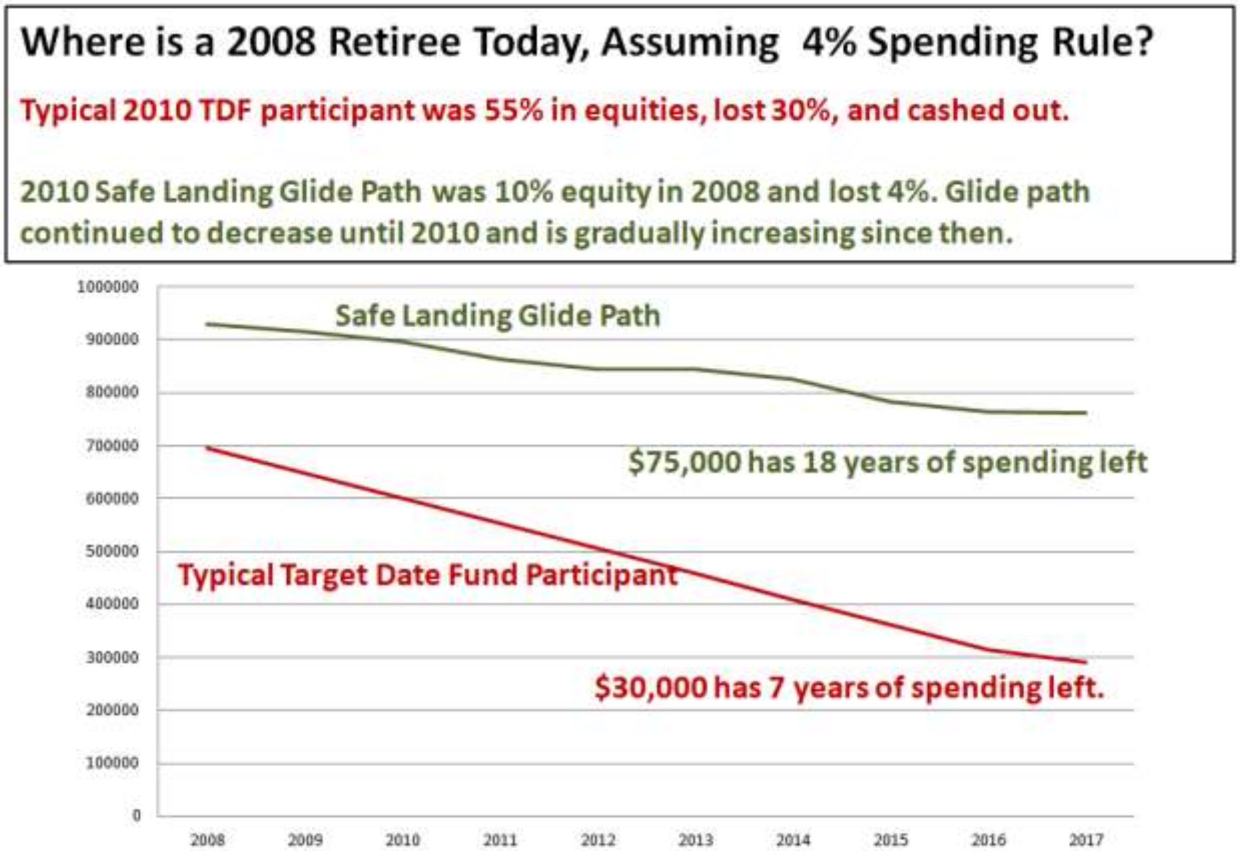
Lessons from 2008

Most of us have forgotten the devastation of 2008 when the typical IRA and TDF lost 30%. Although it went unnoticed, one TDF defended quite well in 2008, with only a single digit loss. The following graph compares the SMART TDF to the industry.



In the 9 years since 2008 the U.S. stocks have soared, earning more than 250%, so the belief is that TDF participants have been made whole and then some, but that's simply not true because most participants in TDFs withdraw their accounts when they retire and it's reasonable to assume that, having been burned, they put their savings in the bank. As shown in the following graph, these typical participants have about 7 years of spending left in their TDF balance, assuming they are using the standard 4% withdrawal rule. By contrast, if they were protected by the SMART TDF that uses the patented Safe Landing Glide Path®, they have about 18 years of spending left today.

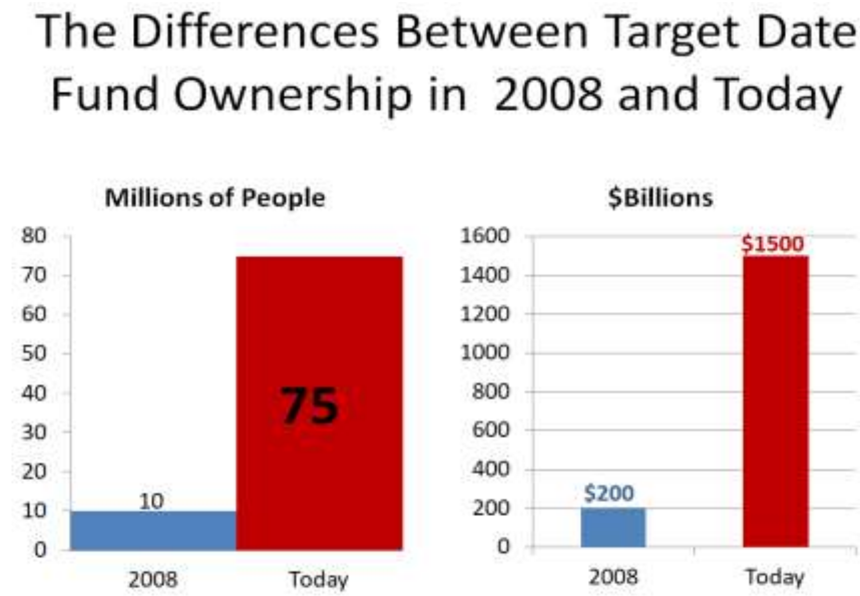
The public outcry in 2008 was just a whimper compared to what can happen when $30 trillion in Boomer assets gets slammed. Can Society support tens of millions of Broke Boomers? Will it? **We all lose if Boomers lose.**



Forgetting 2008 exposes us to a repeat and to potential lawsuits as ERISA attorney Nancy Ross states in **ERISA Litigation Landmarks Set the Stage for 2018** : "*But as the stock market inevitably weakens, you see claims about the failure to offer diversified and defensive lineup. So it's tough to give employers general guidance about how to protect themselves.*"

Conclusion

Unfortunately, 2008 has been forgotten so it will repeat, and this time it will be catastrophic. The public outcry in 2008 resulted in joint SEC-DOL hearings, but that situation had only $200 billion in TDFs and not many people in the Risk Zone. Today we have 75 million people in the Risk Zone and $1.5 trillion in TDFs. When (not if) the next meltdown happens, regulators will have to react to a public outcry like never heard before. Society will applaud lawsuits that recover any part of the damage. Justice will be done, but after way too many are harmed.



Fear mongering? You bet. There are carrots & sticks. Carrots don't work so well when skillful salespeople make poop smell nice.

If you're a fiduciary who has your Boomer beneficiaries in harm's way, shame on you. Don't be surprised if you find yourself in the crosshairs of litigation. If you're a litigator, there's some imminent damage that you can and should recover. It will be a valuable service to Society, thank you.

We help you provide the risk management your clients need and deserve:

- Our **Age Sage Robo for Boomers & Adults** guides clients through a lifetime of investing, protecting them in the Risk Zone.
- The SMART Target Date Fund Index is the Most Prudent target date fund. It tracks the Patented Safe Landing Glide Path that successfully protected in 2008, and will protect again.

Ron Surz is President of [PPCA Inc] and its [Target Date Solutions] subsidiary that just launched the [Age Sage Robo for Boomers &Adults].