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Which Office Do I Go To To Get My Retirement Back?

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Amongst us today are people who are sitting on a large nest egg, who *are* on track to retire comfortably, who smile every time they see their brokerage account statement – and yet, who will likely retire uncomfortably, kicking themselves with regret and perhaps living out their life in depression.

The likeliest way this will happen? Quite simply, the market will crash and remain depressed right when they retire, so they will be forced to sell shares at a low price in order to generate the income they need. Thirty years ago former Labor Secretary Ray Donovan was acquitted of all charges in a sensational trial in which he was accused of being in cahoots with the mob, after which he asked rhetorically: "Which office do I go to to get my reputation back?"

I thought about this episode when reading, "When is the Best Time to Suffer a Negative Investment Return?" whose author Ronald Surz decries the high level of portfolio risk borne by your typical investor. Target-date funds, the main qualified default investment in corporate retirement plans, are on average 50% invested in equities at the target-date – the same allocation that lost 30% in 2008; and the typical IRA owned by older investors is 55% invested in equities. Writes Surz:

The stated objectives of TDFs are to replace pay and manage longevity risk, but that's just the hype that lets fund providers sell product rather than solution. Please note that you will not find these objectives in prospectuses or factsheets – they're just in sales materials."

Thus, like Donovan, some of the retirees with unlucky 2008-like timing will end up with a massive crack in their nest egg and may be wondering where they go to replace their paycheck and keep up with longevity expectations – but the 800-number on their TDF fund sales lit is unlikely to avail them.

The technical nature of this problem is what is called in academic parlance sequence of returns risk, which Surz discusses lucidly in his article. But I'd like to focus on the second key dimension of his article, which seems to get far less attention, and that is the human face of the problem. He discusses the lifestyle implications of botching retirement by pointing out (take note, financial advisors) that "We each have only one life path, not the thousands that a computer can simulate."

Surz writes not just from the professional and academic knowledge he has as a veteran pension consultant, but from direct personal experience, having himself semi-retired into 2008's unpleasantness. Thus, he understands the implications of making unanticipated lifestyle adjustments. He writes:

We all develop a plan as retirement approaches. Some of us see yachts in retirement while others see trailer parks. Either way, a plan is a plan. Disruptions to our planned lifestyle take a huge toll, and can lead to deep depression and physical calamities, like drug and alcohol abuse."

This is just Psychology 101. Few things are quite so painful as seeing hopes and expectations dashed. That is to say, you thought you had something good coming to you, but it didn't come. And that brings me back to the start of this article, i.e., the expectation that many of those who are sitting pretty today won't be covered in glory during their retirement. The reason for this may be found in Psychology 102, where greed is covered. There are investors – I've met them (and written of them) myself – who can't get off the risk train. They've seen their portfolios inflate beyond their wildest dreams, and they're all in. It's as though the validation their brokerage statements provide them has some sort of narcotic effect.

My point is not that pre-retirees shouldn't own stocks – just that they shouldn't depend on them. The kind of folks who feel like geniuses for possessing such wondrous portfolios, yet ask decidedly unbrilliant questions, such as "How long will the market continue to go up?" should lighten up enough so that they can get through three or four years without selling stocks. After that, they can go back to being geniuses. It really isn't about getting the most you can get so much as keeping what you need. Not a few people, trying to grasp it all, wind up with nothing.