Now is the Time to Reassess Financial Planning Priorities

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A REAL-LIFE CRISIS can put a new perspective on things. The COVID-19 pandemic has caused many to reassess their financial planning priorities.

Consider the two broad categories of investors: retired and no longer working to produce an income, and still working and saving for retirement.

Our retired clients who are no longer working are mostly concerned about how the recent drop in portfolio values is affecting their withdrawals. The good news is our allocation strategies generally involve keeping some portion of their portfolios in cash and another producing cash flow from interest and dividends. Clients in this camp are reassessing their actual withdrawal rate; what do they need in terms of income as values drop? Also, with required minimum distributions (RMDs) waived for 2020, does it make sense to convert what would have been RMD withdrawals to a Roth IRA? With tax rates at historic lows, paying taxes on the money now seems smart, considering it is all but inevitable that tax rates will rise in the future to pay for the economic stimulus funds being distributed.

Clients working and saving for retirement are mainly concerned about the lingering effect the drop could have on their portfolios when they are ready to retire. The good news here is that they are still saving for retirement. Those who were working in late 2008 and 2009 during the Great Recession benefited by dollar cost averaging contributions into 401k or other retirement accounts. That strategy will prove just as beneficial now. We are working with our clients in this camp to reassess their current contributions to investment and retirement accounts. Are they sufficient or is an increase called for?

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How will this current crisis be labeled once we are past it? For those who navigated the Great Recession carefully, reassessing their planning priorities, it was a Great Opportunity. Investors should plan now to participate fully in the next post-crisis recovery.

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