WILL A RECESSION ROB YOUR RETIREMENT?

FOUR THINGS TO CHECK NOW

Uncertainty in the economy in the early months of 2025 has economists placing the probability of a recession within the year at anywhere from 30% to 50%.[1, 2] When a recession hits, much more is at stake than stock market shares. During the Great Recession, December 2007 through June 2009, not only did Americans lose $16 trillion in net worth,[3] the unemployment rate doubled to 10%[4] and over 8.7 million jobs were lost.[5] And after the COVID-19 recession began in late February 2020, the U.S. economy significantly shrank before it quickly rebounded. But the damage had already been done as businesses reduced their workforce or shut their doors and millions of employees received layoff notices.[6]

When economists start pointing to signs of a recession, it is natural to feel anxious. Retirees on a fixed income or those getting ready to begin retirement can feel especially vulnerable.

[1] Steve Liesman. CNBC. March 18, 2025. "Slower economic growth is likely ahead with risk of a recession rising, according to the CNBC Fed Survey." https://www.cnbc.com/2025/03/18/slower-economic-growth-is-likely-ahead-with-risk-of-a-recession-rising-according-to-the-cnbc-fed-survey.html. Accessed March 24, 2005.

[2] Chris Anstey. Bloomberg. March 11, 2025. "Summers Sees Near 50-50 Chance of a Recession This Year." https://www.bloomberg.com/news/articles/2025-03-11/summers-sees-near-50-50-chance-of-recession-hitting-this-year. Accessed March 24, 2025.

[3] Brian Duignan. Britannica Money. April 11, 2025. "Great Recession." https://www.britannica.com/money/great-recession Accessed May 1, 2025.

[4] U.S. Bureau of Labor Statistics. February 2012. "BLS Spotlight on Statistics: The Recession of 2007-2009." https://www.bls.gov/spotlight/2012/recession/pdf/recession_bls_spotlight.pdf. Accessed March 22, 2025.

[5] Center on Budget and Policy Priorities. June 6, 2019. "Chart Book: The Legacy of the Great Recession." https://www.cbpp.org/research/economy/the-legacy-of-the-great-recession. Accessed March 22, 2025.

[6] Alicia Wallace. CNN. May 1, 2025. "US job growth hasn't been this slow since Covid. Trump's policies could chill it further." https://www.cnn.com/2025/05/01/business/us-jobs-report-preview-april. Accessed May 1, 2025.

HERE'S THE GOOD NEWS:

While the economy is largely unpredictable, your retirement income doesn't have to be. By getting a clear picture of where your finances stand and creating a plan that takes worst-case scenarios into account, you can feel confident about retirement — even in a recession.

This guide will look at four areas to address to help ensure you can weather a drop in the market.

1. YOUR EXPENSES

Whether in a prosperous bull market or declining bear market, the list of things to prepare for in retirement is lengthy: rising health care costs, end-of-life expenses and a longer life often top the list.

You'll also want to factor inflation into your retirement plan in case the costs of everyday items, travel and other expenses continue to rise. Inflation erodes the value of savings and will continue to do so after you retire. Inflation is expected to moderate from recent highs but stay above the Federal Reserve's goal in the short term. This is partly due to risks like tariffs and trade policies, which can influence overall demand and inflation expectations.[7] The financial repercussions from high inflation, political unrest and a higher-interest rate environment will continue to evolve, heightening concerns for Americans' future economic well-being.

[7] Alain Sherter. CBS News. March 7, 2025. "Some economists think U.S. inflation is likely to rise in 2025." https://www.cbsnews.com/news/inflation-trump-tariffs-economists-forecast-2025/. Accessed May 1, 2025.

CHECK

What about you? Recessions often lead to job cuts. If you had to stop working earlier than planned, would you be in a tight spot?

YOUR CURRENT AND FUTURE EXPENSES

Calculate what you spent last month on:

Mortgage/rent: ________
Home/rental insurance: ___________
Utilities (water, electricity, gas): _____________
Auto (payments, insurance, fuel): ___________
Food (groceries and dining out): ___________
Other: ___________

TOTAL: ______

In 2024, Fidelity reported that a 65-year-old couple can anticipate spending an average of $330,000 to cover health care and medical expenses in retirement, excluding long-term care.[8] (That would be approximately $1,100 per month over a 25-year retirement or $1,375 per month over a 20-year retirement.) You may also wish to factor in health care expenses that could arise at the end of your retirement years. Add an amount that you feel reflects how much you can anticipate spending per month on health care.

HEALTH CARE TOTAL: ______

Add these two totals together and multiply by 12 to get your approximate annual expenses in retirement.

ANNUAL TOTAL: ___________

Of course, these expenses don't include the things you may want to do in retirement, things like traveling, hobbies and family visits. These things not only make life more fulfilling, but research also shows participating in the activities you enjoy is good for your health. So, as you consider your expenses, remember to take your dreams into account.

[8] Fidelity Viewpoints. Aug. 12, 2024. "How to plan for rising health care costs." https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs. Accessed March 24, 2025.

2. YOUR ASSETS

Where does your nest egg live? If you're like many, your assets are spread out in things like 401(k)s, mutual funds and company stock options. All of those assets are tied to the market, so, during a recession, they could significantly decrease in value. On average, the stock market loses about 14%[9] in a correction and 33.5% in a bear market.[10]

CHECK

THE ASSETS YOU'VE ACCUMULATED

Take inventory of your accounts:

Employer benefit plan (401(k), pension, 403(b), etc.): ________________
IRA: ________________
Stock options: ________________
Mutual funds: ________________
Bonds: ________________
Other: ________________

TOTAL: ________________

Now consider the expenses you calculated in Section 1. Would you have enough income to meet those expenses if you lost your job? Could you support your lifestyle if you and your spouse lived to age 80, 90 or beyond? (According to the Social Security Administration, the average 65-year-old man can expect to live to age 84, while the average 65-year-old woman can expect to live to age 86½.[11] One in three 65-year-olds will live to age 90 and one in seven to at least 95.[12])

[9] Stan Choe. AP. March 13, 2025. "A 10% drop for stocks is scary, but isn't that rare." https://apnews.com/article/financial-markets-correction-sp-wall-street-904910323785d377a7d61023df450b72. Accessed March 23, 2025.

[10] Dan Burrows. Kiplinger. 2025. "How Often Bear Markets Occur and 7 Other Facts About Them." https://www.kiplinger.com/slideshow/investing/t052-s001-8-facts-you-need-to-know-about-bear-markets/index.html. Accessed April 29, 2025.

[11] Social Security. "Retirement & Survivors Benefits: Life Expectancy Calculator." https://www.ssa.gov/cgi-bin/longevity.cgi. Accessed March 23, 2025.

[12] Social Security Administration. May 2024. "When to Start Receiving Retirement Benefits." https://www.ssa.gov/pubs/EN-05-10147.pdf. Accessed March 23, 2025.

THREE

3. YOUR RISK TOLERANCE

While investing in the market is a risk, it can be an effective way to grow assets — particularly for pre-retirees who got a late start to their savings. But how much of your savings should be invested in the market?

Calculating your risk tolerance, the degree of variability in investment returns you are willing to withstand, can help you decide. Many factors go into determining your risk tolerance, and a financial professional has access to tools that can pinpoint the amount of risk that's appropriate for you. But you can get a rough idea of how much risk should be in your portfolio by asking yourself a few questions.

CHECK

HOW MUCH RISK SHOULD YOU TAKE ON?

How much would you feel comfortable losing if your investments had a bad year (or series of years)?

How soon do you want to retire?
(The closer you are, the less risk you want to take on.)

No matter what your risk tolerance is today, it likely will change in the future, and you'll need to rebalance your portfolio (or adjust the amount of investments you have compared to reliable income sources). Reallocating your money often requires reading the fine print. For instance, those in or nearing retirement may want to take funds from their 401(k), which may have assets directly tied to the stock market, to a lower-risk financial product. However, because 401(k)s are tax-deferred, moving them to another type of account could cost you in taxes. A licensed financial professional can work with your tax professional to help ensure your assets are moved as tax efficiently as possible while staying within your risk tolerance.

FOUR

4. AN INCOME GAP

Could the total assets you calculated in Section 2 cover your expenses from Section 1 if you and your spouse lived into your 80s or 90s? If you came up short, you have an income gap.

By taking action sooner rather than later, it is certainly possible to build up your nest egg to where you need it to be before you retire. But if you're anticipating a recession, especially in the time leading up to your retirement or during the early years of your retirement, you may be hesitant to rely too heavily on the stock market.

If you're racing to build up your retirement savings but wary of investing a large chunk of your assets in the stock market, there are other options for a portion of your retirement assets. For those seeking alternatives, annuities allow you to create income with less reliance on the stock market.

Annuities are designed to meet long-term needs for retirement income. When you purchase an annuity, you're buying a contract from an insurance company. In exchange for the premium you pay, you receive certain fixed and/or variable interest crediting options that compound interest-tax-deferred until withdrawn. When you're ready to receive income, an annuity offers a variety of guaranteed payout options. However, it's important to note that annuities typically involve surrender charges if you withdraw funds early, which may limit your access to your money. Many annuities do offer a 10% penalty-free withdrawal option annually, which can help address liquidity concerns. If you anticipate needing to withdraw more than 10% of your contract value annually, an annuity may not be appropriate for your financial needs. Additionally, annuities often come with fees and expenses that can reduce your overall returns.

If you want the potential to earn interest on your premiums — to help catch up on your savings — a fixed index annuity (FIA) could be worth exploring. An FIA combines the benefit of tax deferral with the potential for interest based on positive changes of an external index, or a measurement of the stock market, without actual participation in the market.
So, how does it work? The insurance company uses a crediting method to track the performance of the index during a specified time period. At the end of each time period, the company calculates the indexed interest. If the result is positive, the annuity is credited interest up to a predetermined amount. If the result is negative, nothing happens and the annuity's value doesn't decline.

While annuities can provide valuable benefits for many retirees, they may not be suitable for everyone. Those needing immediate access to their funds or who have short-term financial goals might find other investment vehicles more appropriate for their needs.

A qualified financial professional, particularly one who is independent and has access to a wide selection of annuities, can help you determine if an FIA aligns with your financial situation and retirement goals, and can help you create a source of income for as long as you live, even in a recession.

Insurance products offered are considered an outside business activity and are not subject to Investment Adviser requirements.

CHECK

YOUR INCOME GAP

Total assets* - [Annual expenses x 20**] = ______________________

**This is a simplified example for identifying a potential income gap. Individuals may have income sources outside of their accumulated assets, including Social Security, which should be evaluated in conjunction with their total assets as part of their overall retirement income plan.*
***Assumed length of retirement, in years (The expected retirement length in the U.S. is 18.6 years for men and 21.3 years for women.[13])*

Don't Let the Market Dictate Your Lifestyle

You don't need a bull market to give you confidence about your retirement. One of the keys to a comfortable lifestyle in any economy is planning ahead. If the thought of building a plan on your own is overwhelming, there's help available. A qualified financial professional can help you assess where you are and help guide you to get where you want to be — and stay there.

You worked hard for retirement. Don't let a recession rob you of a comfortable lifestyle.

13 Lyle Daly. The Motley Fool. Oct. 10, 2024. "What Is the Average Retirement Age in the U.S.?" https://www.fool.com/research/average-retirement-age/#:~:text=The%252520average%252520retirement%252520age%252520has,to%25252021.3%252520years%252520for%252520women. Accessed March 24, 2025.

224 Ed English Dr., Ste A
The Woodlands, TX 77385
281.872.1515
info@outlookwealth.com
www.outlookweatlh.com

4/25-4349470C