

RETIREMENT AND THE COVID-19 CRISIS

5.2020

We're reconsidering risk tolerance for our retirement investments amid the pandemic. More are considering annuities.



MORE AMERICANS ARE LOOKING TO REDUCE THEIR RISK IN RETIREMENT PORTFOLIOS

Americans might be shifting to lower-risk options in their retirement portfolios over the long term because of the COVID-19 crisis, according to the Alliance for Lifetime Income's Retirement Reset Tracker survey released in May 2020.

In the online survey of people between 56 and 75 years old, almost one in four said they expect to have lower risk tolerance with retirement investments, versus 3% who expect to be more aggressive with investments. Meanwhile, 16% said the pandemic has led them to consider purchasing an annuity, a source of protected lifetime income.

The survey indicates that the COVID-19 crisis and recent stock market turbulence — which has created a great deal of investment uncertainty and losses in retirement portfolios — is causing the potential long-term shift in risk tolerance. Meanwhile, among those in the survey who aren't concerned about the current investing environment, 52% list having protected lifetime income in the form of a pension or an annuity as a reason; the No. 1 reason, mentioned by 56%, is that they have a diverse portfolio meant to weather this kind of volatility.

Annuities can provide guaranteed and predictable monthly income no matter what the market is doing. Since payments can continue throughout retirement, annuities help reduce the risk that you'll outlive your money, also called longevity risk.

Chris Hernandez, a financial planner at Strategic Capital in Austin, Texas, says he hasn't been getting calls from clients asking to get out of the market. Hernandez attributes at least some of his clients' comfort to his use of annuities that protect their principal.

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Danielle Schultz, a financial planner in Evanston, Ill., says: “I've been telling my clients that I've been investing for 40 years, and I've seen many crashes that seemed cataclysmic at the time. It's a really difficult time, and right now diversification is the best protection you have.”

Those still in the workforce — including those who have been recently laid off or furloughed — are more likely than retirees to shift toward lower-risk options. Because of the COVID-19 crisis, 26% of workers expect to lower their risk tolerance, while 21% of retirees said the same.

People are also more concerned about having enough income to cover expenses in retirement. In the survey, 39% said they're less confident they'll have enough income for retirement after experiencing market corrections in 2008 and this year, and 22% of pre-retirees now expect to retire later than they originally planned to make up for recent investment losses. Only one-third are very confident they'll have enough income to cover expenses in retirement.

The Alliance survey says having a pension or annuity is an important reason people remain confident they'll have enough income to cover all their retirement expenses. Developing a retirement income plan with protected lifetime income as part of a balanced portfolio can help you feel more secure in retirement.

*More information can be found in the survey [fact sheet](#).