Retirement Distribution Pitfalls: Not Accounting for Market Fluctuations

Accumulation is a key facet of reaching your retirement goals. However, we tend to see far less about portfolio drawdown, or decumulation—the logistics of managing a portfolio from which you're simultaneously extracting living expenses during retirement. This can be even more complicated than accumulating assets.

Pitfall: One of the big mistakes of retirement distribution can be not adjusting withdrawals to account for market fluctuations. So-called sequencing risk—the chance that retirees may encounter a harsh bear market early in the life of their withdrawal program—can have a big effect on a portfolio's longevity. Taking fixed distributions from a shrinking pool means that a retirement portfolio could suffer losses from which it would be impossible to recover.

Workaround: Maintaining a well-diversified asset mix may be a retiree's best weapon for protecting his or her portfolio from a bear market. For example, holding assets in high-quality bonds and cash may allow a retiree to meet desired living expenses without having to withdraw from equity holdings during periods of market weakness. That said, the smartest retirement-distribution plans also make adjustments during times of market duress, possibly reducing withdrawals or, at a minimum, forgoing upward inflation adjustments.

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