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# Retiring into a challenging economy

As of this writing, four major financial topics are all over the media: inflation, market volatility, rising interest rates, and the possibility of a recession. If you're newly retired or considering retirement, there's probably nothing you can do about any of these situations. But what you can do is think about positioning your savings and investments to help control the risk you face today and be better prepared to take advantage of the recovery ahead. Here are a few suggestions to consider.



## Stay informed, but control your media intake

With today's 24-hour news cycle, there's no shortage of alarming headlines about the economy, politics, and their impact on your personal financial situation. While it's important to be informed, fear and anxiety can lead to shortsighted decisions about your savings and investments.

Try setting limits on how much media you take in. Tune into those broadcasts, sites, and publications that earn your trust by providing accurate and useful information. Stay away from the ones that are just trying to get you rattled.

As *The Atlantic's* happiness columnist Arthur C. Brooks advises, "you will not satiate your hunger for certainty with another hour of news; on the contrary, it will probably decrease your sense of control and increase your stress. Cut your news consumption down to 45 minutes or less, once a day. No cheating."

## Keep volatility in mind

Although economic conditions will change over time, one way to deal with potential market volatility is to spread the risk. There are two strategies to consider for your retirement savings.

The first of these strategies is asset allocation—the way you spread your investments across the major asset classes of equity (stock) investments, fixed-income securities (bonds), and cash and cash equivalents. The general rule of thumb here is that your allocation to stocks should gradually decrease as you get older.

The second strategy for dealing with risk is diversification, or deliberately mixing holdings from large, midsize, and small U.S. companies—as well as some based in other parts of the world. History has proven that different varieties of holdings will do well at different times.

## Trust the investment guidance that got you this far

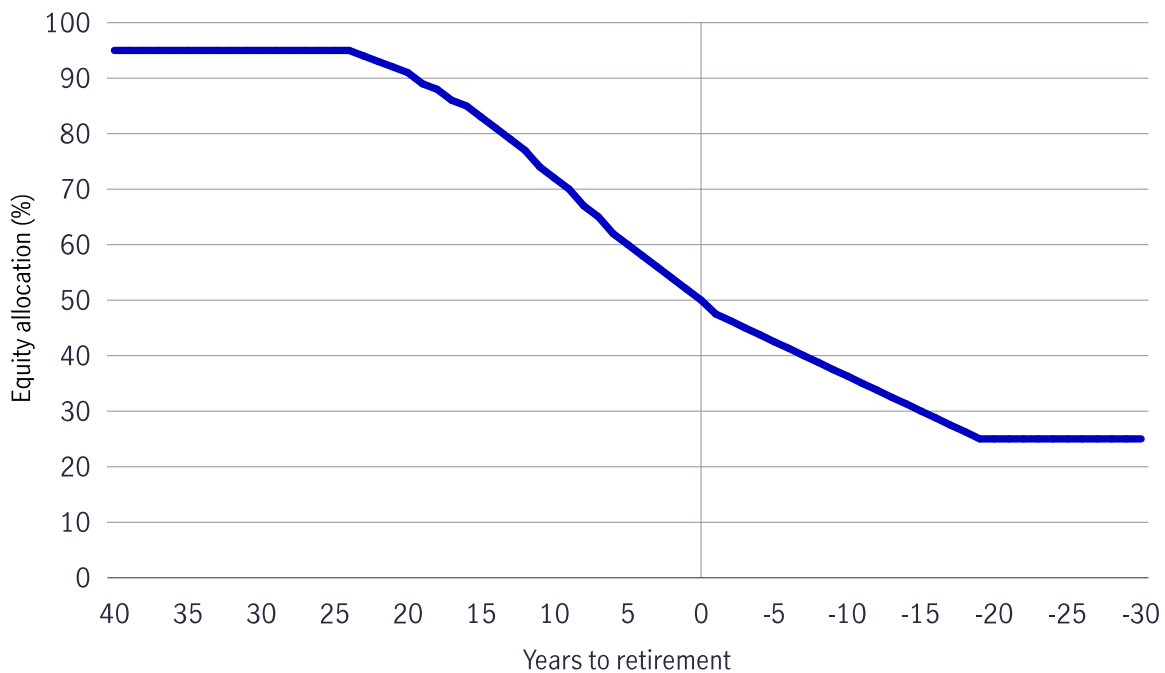
Some retirement savers rely on target-date funds to help keep them in the right mix of investments over many years. You may be among them.

The managers of these retirement investments gradually change each fund's asset allocation and underlying investment holdings to suit your planned retirement date. In the process, they help compensate for economic and market conditions, including the kind we're experiencing today.

Keep in mind that if you invest in a TDF (or any investment for that matter), you'll still need to regularly review your fund (and other investments you may have) to make sure it's still in line with your overall goals and objectives.

### **TDFs adjust equity holdings based on your target retirement date and economic conditions**

A hypothetical look at how the mix of equities (stocks) glides downward over time



Allocation may vary as a result of market savings or cash allocations held during unusual market or economic conditions. For illustrative purposes only.

Another investment option, a managed account, takes professional management a step further. Managed accounts are packaged services, with investment managers choosing funds and offering savings advice specially for you.

As with a TDF, a managed account is intended to keep your investment mix current as you get older and as conditions change; however, the investments within managed accounts are often personalized based on your specific risk tolerance and other preferences.

If you have either a TDF or a managed account, you're already getting an extra measure of guidance. If not, they may be available through your workplace retirement plan or IRA.

## Don't give up your opportunities for potential growth

Stocks are the growth engine in any investment portfolio—and given that retirees may need their assets to last 30 years or longer, growth is an important factor for any retiree to consider.

Yet, when times turn challenging, it can become tempting to move your savings to cash. You may want to think twice before you do.

Taking large withdrawals from your workplace retirement plan or IRA can trigger income taxes—and if you're younger than 55 (for a workplace plan) or 59½ (for an IRA), you could also end up paying tax penalties.<sup>1</sup> But you should also think carefully about making an internal transfer from your current portfolio to a money market fund or other cash investment.

The reason? It's hard to find an appropriate time to move cash back into stock investments. Here's just one very recent example:

On September 30, the Standard & Poor's 500 Index closed at 3,385.62, which was down substantially from January. But by October 4, the index was back up to 3,790.93. That's a four-day gain of 5.7%. It also demonstrates just how quickly markets can turn—and the potential risk of trying to time them.

## Consider if now's really the right time to retire

Picking the right time to retire is always challenging. It can be especially hard when the market is down and recovery doesn't quite look certain. The problem is that cash you take from your savings in the early years could have a detrimental effect on your portfolio's ability to last through your retirement.

There are some possible ways to help address this risk, including:

- Deliberately limiting the amount you withdraw from your retirement accounts, at least until recovery's under way
- Working with a financial professional to balance risk and growth potential while keeping retirement income targets in mind
- Prioritizing more dependable sources of income such as Social Security, pensions, and, if they make sense for you, income funds and annuities

Given the tight labor market, you may find that there's still demand for your experience and talents.

Another year or two of work may give the economy and the markets time to recover. It also gives your retirement savings and potential Social Security benefit the opportunity to grow.

## Keep in mind that investing always involves risk, but you should also feel comfortable

Just because you've had a challenging quarter or two doesn't mean that a retirement strategy that may have been good when you created it is suddenly out of date. We've all seen markets rise and fall, yet, the overall history has been positive.

In times like these, it's natural to wonder if you'll always be able to make ends meet. Regardless of your situation, it may be a good idea to discuss your plans and goals with a financial professional. They can help make sure that you and your retirement portfolio are well positioned for the challenges and opportunities ahead.

**For complete information about a particular investment option, please read the fund prospectus. You should carefully consider the objectives, risks, charges, and expenses before investing. The prospectus contains this and other important information about the investment option and investment company. Please read the prospectus carefully before you invest or send money. Prospectus may only be available in English.**

<sup>1</sup> Ordinary income taxes are due on withdrawal. Withdrawals before the age of 55 (workplace retirement plans) or 59½ (IRAs) may be subject to an early distribution penalty of 10%.

### **Important disclosures**

There is no guarantee that any investment strategy will achieve its objectives.

Neither asset allocation nor diversification guarantees a profit or protects against a loss.

The target date is the expected year in which investors in a target-date portfolio plan to retire and no longer make contributions. The investment strategy of these portfolios is designed to become more conservative over time as the target date approaches (or, if applicable, passes) the target retirement date. Investors should examine the asset allocation of the portfolio to ensure it is consistent with their own risk tolerance. The principal value of your investment, as well as your potential rate of return, is not guaranteed at any time, including at, or after, the target retirement date.

The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index.

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