

## Protecting Your Retirement Funds

Certain assumptions are commonly made, when people are projecting to take a future income. A closer examination of these assumptions may prevent unpleasant consequences and missed opportunities. Exactly what does this mean?

If a market correction takes place, and one's account value suffers a 20% loss in one year, what kind of gain, the following year, will offset this loss? The most common answer is, quite naturally, "Well, twenty per cent. My account will have to increase by the same percentage in order to fully recover." Let's examine this more closely, using real numbers. If a \$100,000 account experiences a 20% loss, the value will become \$80,000. If we add 20% to \$80,000, will the total be \$100,000? Actually, 20% of \$80,000 is \$16,000, and when these are added together they total \$96,000. So, one will really need a 25% increase to offset a 20% loss, in this example.

"Well and good, since I have a lot of time to get those gains back." Not everyone can say this, and it is commonly thought that the closer you are to accessing your funds in retirement, the more risk averse you should be. Therefore, after experiencing a decline, if you are looking to recover from a loss and your funds are subject to further declines, a snowball effect may start working against you! While it is easiest to think of account values increasing at a steady pace... life doesn't always cooperate. If we assume that income is needed to be generated from a declining account value, the problem is surely compounded. A greater percentage of the account value is now being turned into an income stream, leaving a smaller balance to offer needed appreciation.

The solution? First, understand your time frame, and shift your attention to protecting and preserving your funds, rather than growing them. Secondly, be flexible and willing to segment part of your funds and actually remove them from market risk. This will guarantee a base from which you can take income. And lastly, look to vehicles that can provide a lifetime income, for the peace of mind that all of us desire, when we stop working full time!