
# THREE RISK CONSIDERATIONS UTILIZATION OF ASSETS

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Various solutions exist to reinforce your ability to manage the drawdown of your wealth and effectively your assets in order maintain a comfortable standard of living. All of these solutions seek to make the best use of your time. Although average life expectancy is increasing, your ability to withstand peaks and valleys is not as elongated at retirement age (be it 55, 65, or 75) than when you were younger, so a few strategic considerations can help to keep time on your side. We'd like to provide some tips for considering risk when managing your retirement income.

Before anything, you should determine as best as you can a projection of your social security benefit. This will allow you to approximate how much of your fixed expenses may be covered at retirement.

Next, consider the following areas when managing the risk in your portfolio. Three fundamental risks to when it comes to retirement income are investment risk, longevity risk and liquidity risk.

## Investment Risk

Diversified portfolios (through lifecycle) alongside prudent investment management are absolutely necessary to providing retirement income. Managing the risk level of your portfolio in retirement is a very important step.

If the risk is too high, you could end up in a market downturn that could prove deleterious to your assets. Conversely, if you de-risk excessively, you might not have the ability to grow your assets for the length of time that you need to. Many personal advisors would recommend an equity exposure at 50% of assets or less. But this will vary based on your personal financial situation and risk tolerance.

## Longevity Risk

Given that life expectancy continues to expand, you will periodically want to reevaluate your risk level. This evaluation should be commensurate to your age and health conditions (and maybe even your hobby engagement, in case you plan to do a lot of skydiving or mountain biking in retirement!). Every stage may carry some different risk, so it's worthwhile to set a yearly calendar reminder to think about longevity risk.

## Liquidity Risk

Liquidity risk deals with your immediate access to cash. Some investment products are not immediately able to be turned into liquid assets—or they cannot be liquidated without a financial penalty—and this can restrict your access to your wealth and cause some stress. When you have investments, some of them are easy to turn into cash and some are not. Typically, the majority of investments in a 401(k) menu are mutual funds, which are liquid. The only nonliquid component in a 401(k) plan is either a fixed income portfolio or an annuity, which makes liquidity risk less of a factor in 401(k) programs than in outside portfolios because of the different types of possible investments.

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Target Date Funds are a useful tool to manage for these three types of risk. The age-appropriate Target Date Fund can serve as your single investment option where these risks are managed for you in lieu of an existing investment strategy or guidance from a financial professional.