“How would a recession affect my plans for retirement?”

A recession can be a scary time to think about retiring. The prevailing outlook is nothing but doom and gloom. Realistically, we need to know what to expect down the road.

A recession is part of the economic cycle. It is defined as at least six months of slowing economic activity and can last up to 18 months. The opposite side of the cycle is recovery. Canada had recessions in 1990, 1980-82, and 1970. They hit about once every decade.

This slowing down and speeding up are part of the natural pattern of economic activity. As uncomfortable as it may get, every winter has been followed by spring and every recession in our history has been followed by a recovery.

Since these economic ups and downs won’t stop when we retire, let’s examine them more closely.

**Retiring when the economy is slowing down**

Markets are down and job losses are up. Interest rates are falling, businesses are looking to cut costs and many retailers will be slashing prices in an effort to clear out their expensive inventory. Anyone who speaks of a rebound at this point is scoffed at.

Stock markets react ahead of economic news, so stock prices will fall in anticipation of a possible recession – and bounce back before the expected recovery has materialized. As we saw in the fall of 2008, by the time a recession hits, stock prices may have already declined sharply.

A retiree on a fixed income – receiving government pensions and private annuities – does not have to worry about losing their job. However, if they are relying on investment income, this is sure to be lower than what they were used to when stock markets were rising. While nothing is ever guaranteed, if there is good news for someone retiring into a recession, it is that the next change will be up.

**Retiring when the economy is growing**

A recovery is a time of rising prosperity and this usually means good returns from the stock market. As the economy rebounds, corporate profits return, layoffs are reversed and new jobs are created. Increased demand for labour, material and credit may stimulate a rise in prices and interest rates and draw government attention to the threat of renewed inflation.

The Old Age Security and Canada Pension Plan have payments indexed to inflation to protect your purchasing power. However, you also need good returns from your investments to keep up with rising prices. A new car or a major trip will cost more, as will basic expenses like clothing, groceries and home repairs.

Remember:

- Recessions are normal.
- Change is inevitable, so plan on it.
- The past is certain, not the future.

Are your finances as secure as you’d like?

If you have questions about building the comfortable life you want, The Financial Educator has answers.

Check out the lesson on Economic Cycles.

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Inflation is the biggest long-term worry. Imagine trying to live on the paycheque you had ten or fifteen years ago and you’ll have an idea what pensioners on fixed incomes face – making do on less and less with each passing year.

Also keep in mind the inevitability of volatile markets and an eventual recession. As those who retired in the first half of 2008 discovered, sunny conditions do not last forever and stock prices can change suddenly. Historical averages are fine for long-term planning, but it is important to be prepared for the unexpected. A margin of safety should be built into your plan, so you are not forced to liquidate assets at a loss.

Ten Steps to take during tough economic times

1. Cash is king: If you don’t have an ‘emergency fund’, begin building one now.
2. Curtail spending: Buy what you need. Put the rest on hold.
3. Reduce high-interest debt: Pay off your credit cards as soon as you can.
4. Reduce long-term debt: Increase mortgage payments if you can.
5. Do not grieve: The past is past. Forget your market losses and focus on where you go from here.
6. Review your risk tolerance: Check your investor profile. Confirm how much risk you are comfortable with for the long term.
7. Adjust your investment mix going forward (if necessary): Change the mix of your new contributions before thinking of selling investments that have gone down.
8. Decide with your head, not your heart: Use your common sense. Make investment decisions based on your plan, not your emotions.
9. Manage your expectations: It will take time to get through this process. We’ll only know where the bottom is after we’ve passed it.
10. Breathe deeply and count your blessings: Life is more than money. If you have your health, your family and your friends, you are truly wealthy.

Climate is what we expect, weather is what we get.

Mark Twain

I believe economists put decimal points in their forecasts to show they have a sense of humor.

William Gilmore Simms

They said it!