Best practices for plan sponsors

hooker & holcombe

Coronavirus and Retirement Savings: Lessons to help mitigate long-term retirement savings mistakes

It's easy to say "stay calm" but harder to actually walk the walk.

Keeping emotions out of investment strategies can be challenging even on a normal day. Add a dose of a health pandemic, in this case the worldwide coronavirus, and you could have a recipe for widespread investor panic. Unfortunately, that recipe could be a breeding ground for long-term retirement savings consequences.

As we have seen, COVID-19 is wreaking havoc on financial markets, both in the U.S. and abroad. Recently, the Dow Jones Industrial Index has resembled a car dealership air dancer, wildly flailing about, bending all the way to the ground and then randomly bouncing straight back up for a moment or two.

However, there are lessons to learn from history. By looking back in time, we might be able to educate and inform investor actions today.

Lesson #1: Dollar cost averaging

It is a simple investment strategy where plan participants invest a fixed amount into the same fund or investment asset over a gradual period of time. When the investment prices are reduced, investors get a chance to purchase more units, and this can help to reduce price volatility.

Lesson #2: Past performance is no guarantee of future results

Participants should focus on their long-term financial goals, not short-term fluctuations. Even during such market fluctuations as the 2001 tech bubble, the 2008 market crash and the Great Recession, the average growth rate of the S&P 500 still produced positive annual returns.

Lesson #3: Timing the market

To help weather difficult market turns, portfolios should reflect both a risk and asset allocation approach. This includes diversification, both regionally and by product (stocks, bonds, cash and alternative asset classes). Participants should avoid making any knee jerk reactions, such as moving all of their assets from equities to bonds in the hopes of avoiding any losses due to volatility.

Lesson #4: Throwing in the towel

Post-2008, one study found that 27% of respondents either stopped saving for retirement or adding to their 401(k).[1] At the same time, according to a Fidelity Investments report, the average 401(k) retirement plan

balance rose by 466% to $297,700 between 2009 and 2019.[2] Millennials' average retirement savings of $7,000 in Q1 of 2009 grew 1,762% to just under $130,000 in 2019. Translation: participants shouldn't stop saving for retirement in market downturns.

Lastly, try not to watch the markets with myopic intensity. Analysis after analysis of past financial events show that when investors don't make panicked decisions, they are more likely to ride out volatility and come out ahead.

[1] "Betterment's Consumer Financial Perspectives Report: 10 Years after the Crash." Sept 2018. Betterment. https://www.betterment.com/uploads/2018/09/Betterment-Consumer-Financial-Perspectives-Report.pdf

[2] "Fidelity® Q1 2019 Retirement Analysis: Account Balances Rebound From Dip In Q4, While Savings Rates Hit Record Levels." May 2019. Fidelity. https://www.fidelity.com/bin-public/060_www_fidelity_com/documents/press-release/quarterly-retirement-trends-050919.pdf

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