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Stock market bears down on recent retirees' dreams

By Susan Tompor
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(Excerpt)

When Dan Valle took his buyout from Ford Motor Co. more than a year ago, he did what he thought was the sensible thing. Then age 57, he rolled over a lump-sum payout, roughly a year's salary, into an individual retirement account. He turned to a broker to invest the money.

He wanted an average 7% return a year.

"It was supposed to be with a safe investment," Valle said. "That's obviously way out of line because it's dropped more than 40%."

Valle, like others, had enough. He sold most of his stocks about two months ago. He's not sure how he'll recover all the money, but he feels like he won't lose much more.

It is not the relaxing retirement he imagined.

Everybody's 401(k) plan has taken a brutal battering and, frankly, could use a bailout. U.S. retirement plans lost as much as $2 trillion in the past 15 months, according to a Congressional Budget Office estimate in early October.

Bear markets can be devastating for new retirees or investors nearing retirement if they do not adjust.

The money lost can be astronomical for some investors who loaded up on one stock. GM stock, adjusted for dividends, has fallen about 80%, and Ford stock is down about 70% since October 2007.

The down market will demand some trade-offs.

Do you keep working? Cut off financial handouts to your grandchildren? Skip vacations? Tell yourself that things will straighten out?

Investors who are in their late 50s and 60s don't have years to wait for a rebound. On top of it, extremely difficult times in the auto industry make some Michigan workers feel pressured to retire right now.

They might feel their job won't be there -- or that the next buyout won't be as good.

Hard choices

Many investors are hoping that the worst on Wall Street is over.

"I've seen it before. People get scared and they pull their money out of the market," said Paul Perzyk, 56.

Perzyk retired early on Oct. 10 from General Motors Corp.

No regrets. Perzyk, who has worked for GM for 25 years, had some cash and even bought some extra GM stock at $7.77 a share during one of the many downfalls before he retired.

"It had to be good, right?"

Perzyk remains confident in his future because he has a pension and has been able to sell his home. He and his wife, Susan, sold their home on Lake St. Clair in New Baltimore -- after having the house on the market for about 18 months -- in April.

In late August, GM began providing eligible U.S. salaried workers with sealed, individualized offers based on age, years of service and work history. During this round, GM offered early retirement packages to about 9,000 salaried employees.

Perzyk estimates that his retirement nest egg fell about 30% in this bear market. But he's convinced he'll be OK. He and his wife moved this week to Cape Coral, Fla.

"I just think the market is going to come back," he said. "It'll come back."

Some new retirees, though, may need to be cautious -- since no one knows how quickly stocks could recover.

Research showed that some retirees may have a significant chance of running out of money if they experience average returns less than 4% in the first five years of retirement.

It's like digging a big hole.

Imagine that you had $100,000 -- and then celebrated by taking out $40,000 to pay cash for a luxury car.

Or you lost 40%, or $40,000, in one year of a bear market.

The impact of either would be as if eight or nine years of your retirement money vanished at once.

Money spent -- or 30% or 40% lost in a market decline -- won't generate compounding of earnings in future years. Advisers typically recommend taking out about 4% a year or so -- plus extra to cover inflation in future years -- in retirement. That's $4,000 in a year, not $40,000 on a $100,000 nest egg.

For some people, the best solution is to retire later or work part-time. Or spend less.

Even before the market meltdown, a larger share of people 65 and older already had decided to keep working or return to work, said Kurt Metzger, research director for the United Way of Southeastern Michigan.

By 2016, he said, workers age 65 and older are expected to account for 6.1% of the total labor force, up sharply from 3.6% in 2006.

People are living longer, and some find retirement limiting. But he said now we are seeing more people staying on or going back because they are not financially prepared to retire.

If someone earns $20,000 a year in retirement, that's essentially as if someone had saved $500,000 for retirement. (Think of a 4% withdrawal rate.)

Retirees should not do something rash or get talked into some scam to try to quickly recover losses.

"Don't compromise a long-term strategy because of short-term events," said David Kudla, chief executive officer of Mainstay Capital Management in Grand Blanc.

Nora Barry, 67, stopped working at Commercial Bank in Alma on Sept. 25 – and wall Street headed into a tailspin.

“I panicked when I was listening to all this stuff,” Barry said.

But she plans to watch her spending and try not to touch her retirement money for the next three years or so. “This wouldn’t be an ideal time to retire; however, I don’t want to work until I’m 70.”

Housing, stock market downturn

During his first year of retirement, Valle found himself on the wrong side of both the housing slump and the stock market panic of '08.

He was dumping his Wachovia Corp. preferred stock during the banking crisis. His broker recommended the sale after watching the demise of Washington Mutual and other financial stocks. Valle saw the stock price shoot up shortly after he sold, though.

Anxious about other losses, Valle bought some Ford stock at $5 a share. Ford later dropped to around $2 and then went up to around $2.50.

"I even bought GM at $10.58" a share in late summer, he said. Then, he saw GM close as low as $4.76 a share on Oct. 9.

He's hoping that both stocks go back up.

Valle wanted to sell his house in Westland for $180,000. He dropped the price to $159,000. Still, no takers. He took his house off the market.

Now, he's working to refinance his mortgage to deal with a balloon payment that will come due Dec. 1.

"It's a mess, isn't it?" he asked.

Valle, 59, advises that some people should really think twice about retiring now.

I think the worst that can happen is happening."

"Unless you have a potential for work, I wouldn't take it and I wouldn't take it early," Valle said. "You'd better be prepared because I think the worst that can happen is happening.”