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What is Financial Risk and How Do I Avoid It?

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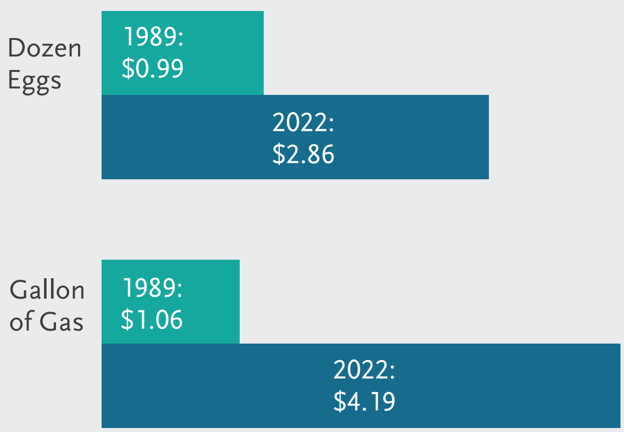
Financial risks are factors that can directly impact your financial goals. Here are three main areas of financial risk to consider.

#1 Inflation Risk

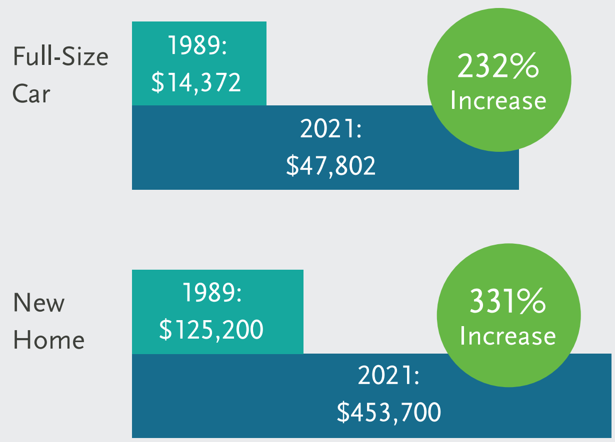
It's easy to forget about inflation, especially during periods when it's low. But if you're planning for the long-term, you can't ignore the potential impact inflation will have on your bottom line.

30 years of inflation impact – 1989 to 2021/2022

Everyday Expenses[1]



Big Ticket Items[2]



#2 Unknown Risks

Planning for unknown risks is a difficult — but important — part of risk planning.

When you consider the statistics around premature death and illness, it's not hard to see how a single illness can completely derail your financial goals. In fact, medical bankruptcies represent 66.5% of all personal bankruptcies.[3]

6 in 10

Americans live with at least 1 chronic disease.[4]

Every 40 Seconds

A stroke occurs in the US.[5]

Est. 2,000,000

new cases of cancer will be diagnosed in 2023.[6]

#3 Market Risk

Need to take a loan out of your 401(k)? Plan on retiring soon?

The best laid plans can be derailed if the market has a downturn just when you want to access your money — and if you can't wait out a downturn, the impact can be significant.

The most significant impact can be on retirees. Consider the following scenarios:

Scenario – Down Market

Jessica retires at age 65 in the year 2000, at the start of a down market with an account balance of $1,000,000. By age 78, her account is reduced to $0

Early Negative Returns

Income distributions begin in a down market, based on S&P 500 returns from 2000-2022.

Age	Return	Distribution	Account Value (EOY)
65	0.00%	$50,000	$950,000
66	-10.14%	$51,500	$802,170
67	-13.04%	$53,045	$644,522
68	-23.37%	$54,636	$439,261
69	26.38%	$56,275	$498,862
70	8.99%	$57,964	$485,746
71	3.00%	$59,703	$440,616
72	13.62%	$61,494	$439,135
73	3.53%	$63,339	$391,297
74	-38.49%	$65,239	$175,448
75	23.45%	$67,196	$149,395
76	12.78%	$69,212	$99,276
77	0.00%	$71,288	$27,988
78	13.41%	$31,741	$0
79	29.60%	$0	$0
80	11.39%	$0	$0
81	-0.73%	$0	$0
82	9.54%	$0	$0
83	19.42%	$0	$0
84	-6.24%	$0	$0
85	28.88%	$0	$0
86	16.26%	$0	$0
87	26.89%	$0	$0
88	**-19.64%**	**$0**	**$0**

Scenario – Up Market

Suppose the returns were reversed so that Jessica retired in an up market. In that case, at age 88 she would still have $543,344 in her account!

Early Positive Returns

Income distributions begin in an up market, based on same returns but reversed from 2022-2000.

Age	Return	Distribution	Account Value (EOY)
65	0.00%	$50,000	$950,000
66	-19.64%	$51,500	$711,920
67	26.89%	$53,045	$850,310
68	16.26%	$54,636	$933,934
69	28.88%	$56,275	$1,147,379
70	-6.24%	$57,964	$1,017,819
71	19.42%	$59,703	$1,155,777
72	9.54%	$61,494	$1,204,544
73	-0.73%	$63,339	$1,132,413
74	11.39%	$65,239	$1,196,156
75	29.60%	$67,196	$1,483,022
76	13.41%	$69,212	$1,612,684
77	0.00%	$71,288	$1,541,396
78	12.78%	$73,427	$1,664,959
79	23.45%	$75,629	$1,979,763
80	-38.49%	$77,898	$1,139,854
81	3.53%	$80,235	$1,099,855
82	13.62%	$82,642	$1,167,013
83	3.00%	$85,122	$1,116,902
84	8.99%	$87,675	$1,129,636
85	26.38%	$90,306	$1,337,328
86	-23.37%	$93,015	$931,780
87	-13.04%	$95,805	$714,471
88	**-10.14%**	**$98,679**	**$543,344**

The examples shown are hypothetical, are used for illustration purposes only, and do not take into account other sources of retirement income. It is not recommended that one invests 100% of assets in one type of account. Past performance is not an indication of future results.

Source: Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc.

So how do you avoid inflation, unknown risks, and market risks?

You can't.

But you can plan for them and transfer some of those risks utilizing financial products. Talk with your Financial Representative today about your financial goals and how you can better help mitigate the financial risks in your life.

1. U.S. Inflation Calculator: https://www.usinflationcalculator.com/inflation/egg-prices-adjusted-for-inflation; https://www.usinflationcalculator.com/gasoline-prices-adjusted-for-inflation, 2022

2. https://clark.com/cars/average-new-car-price; https://www.statista.com/statistics/240991/average-sales-prices-of-new-homes-sold-in-the-us/

3. https://www.retireguide.com/retirement-planning/risks/medical-bankruptcy-statistics, Oct. 2023

4. https://www.cdc.gov/chronicdisease/index.htm, May 2023

5. Centers for Disease Control and Prevention https://www.cdc.gov/stroke/facts.htm , May 2023

6. Cancer Facts & Figures 2023, American Cancer Society (ACS), Atlanta, Georgia, 2023

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