Rethinking Retirement –
Coping with Stock Market Volatility

The volatility of the stock market over the past few years has resulted in many investors seeing their retirement accounts shrink in value. While the stock prices may rise over time, many individuals are being forced to re-examine their retirement plans. For older individuals with less time until their planned retirement, a serious review of their financial future may be essential.

Basic Retirement Planning

The fundamentals of planning for a financial secure retirement are simple – have enough money accumulated at retirement so those savings and the earnings on those savings will enable you to afford the lifestyle you want until you die.

Unfortunately, market declines and reduced expectations for future market returns are playing havoc with many retirement plans. Within the current environment, here are some options to consider as you refine your retirement plan:

Save more while you are working

Be sure to take full advantage of any company offered retirement plan. If you participate in a 401(k) plan, contribute as much as you can and at least enough to earn the entire match the company may offer.

Set up an automatic savings plan. Have a set amount deducted from each paycheck and deposited into an account you earmark for retirement.

Examine your monthly household spending to see if there are ways to spend a little less. Refinancing your mortgage, increasing your insurance deductibles and reducing spending on discretionary items can add up.

Earn more on your retirement assets before you retire

Examine how your funds are invested and how your "cash" is employed. A well thought out asset allocation for your investments, one that incorporates your time horizon and risk tolerance, can provide diversification and some peace of mind. Generally, the younger you are, the more of your long-term investments should be in equities. Over time, high quality stocks have produced greater returns than bonds and cash investments.

Your cash should be working hard too. Take advantage of higher interest rates on accounts that provide less liquidity and on longer term CDs if you can leave the money in the accounts or CDs for longer periods.

Work longer until you retire

Delaying your retirement enables you to have more for retirement in several ways:

- While working, you can save more in your retirement plan and through regular savings.
- Especially with your tax-deferred retirement accounts, leaving all your funds within the account enable them to grow faster. For example, if you delay retirement for five years and earn just 5% on the funds, you will have about 27% more just from the earnings.

- Delaying when you start collecting Social Security will increase your monthly benefits. If you are currently 55 years old, you can start collecting full Social Security retirement benefits at age 66. If you start at age 62, you will only get about 75% of that amount and if you wait and start collecting at age 70, you will get about 130% of that amount.

Spend less during your retirement years

Everyone wants a “full and active lifestyle” during retirement. Perhaps you should consider changing exactly what the “full and active lifestyle” means. Less travel, less expensive cars or foregoing a second home (or opting for a smaller one) will make a difference. Anticipating and setting sensible spending priorities will probably be part of many individuals’ retirement.

Leave less to your heirs

What you do not spend during your lifetime will pass to your heirs. It may be unpleasant to consider, but spending time with your family discussing your finances can help them prepare as well.

Summary

The declining stock market has affected almost everyone. Taking some time to evaluate your overall retirement plan. If you find ways to save more and invest the funds wisely, the retirement you seek may still be possible.