BUILDING BLOCKS FOR RETIREMENT

Retirement Planning Essentials

An Action Plan for Preretirees

As someone saving for their retirement, you may want to periodically revisit your investing and financial strategies as well as your timetable for retirement. Even if retirement is still several years away, you can see how well various assumptions you may have made about retirement are holding up.

Here are some issues you should consider as a preretiree.

Is Your Employment Secure?

Job losses have been significant and many employees have had their hours and wages reduced. While it may be difficult to assess your future job security, it may make sense in this climate to seek out additional sources of income. Do you have a skill or talent that can generate extra income? For example, can you find part-time work doing coding or bookkeeping for small businesses? The gig economy has suffered but work may be available. Save and invest what you earn from part-time work.

Do You Have an Emergency Fund?

If you don't have an emergency fund and you are still employed, consider setting aside part of your wages to fund one. This will help you deal with unanticipated expenses without having to use a credit card or borrow from your retirement plan. Try to aim for saving enough money to cover three to six months' worth of expenses.

Should You Maximize Your Social Security Benefits?

You may want to consider delaying taking Social Security benefits for as long as you can afford to do so. You can start collecting Social Security retirement benefits as early as age 62, but you won't be eligible for the full benefit amount. You also can postpone signing up for Social Security until after your full retirement age (FRA) -- the age at which you'll be eligible for full benefits -- in which case your benefit increases (8% per year up to age 70 for those born in 1943 or later).

FRA is based on the year in which you were born. To see how this works, assume you were born in 1960. Here are the numbers:

- Age 62: receive 70% of your monthly benefit (the minimum amount)
- Age 65: receive 86.7% of your benefit

- Age 67: receive 100% of your benefit
- Age 68: receive 108% of your benefit
- Age 69: receive 116% of your benefit
- Age 70: receive 124% of your benefit (the maximum amount)

Can You Save More?

If you have a job and an emergency fund, you should try to boost the amount you save. Living below your means involves cutting down on discretionary expenses. Look for places you can reduce your spending. And look into selling household items, jewelry, or clothes you no longer want on the online marketplace. Most online sales sites charge a small commission. Again, use any money you generate for savings or to pay down debt.

Are Your Investments Sufficiently Diversified?

Diversification[1] is an important investing strategy that involves spreading your money among a variety of funds or portfolios that hold different investments in different asset classes. The thinking is that spreading out your investments helps you manage risk in your portfolio since one asset class may rise at the same time as another one declines. However, the severe volatility in the stock market has forced many investors to revisit how they allocated their investments. You may need to reevaluate your asset allocation[1] in light of your particular risk tolerance, time frame, and investment goals. For example, recent events may have convinced you that you are taking on more investment risk than you are truly comfortable with. You may be drawing closer to your anticipated retirement date and might want to focus on asset preservation rather than asset growth.

Should You Stop or Reduce Your Retirement Plan Contributions?

You may be tempted to preserve cash by reducing or eliminating what you contribute to your retirement plan. However, you should think carefully before doing so. The money you contribute to your plan is intended to provide for those years when you will be retired and no longer drawing a regular paycheck. You'll want your money to work 24/7 on your behalf for as many years as possible to take advantage of compounding.

Reach Out to a Professional

These are unusual and stressful times. If you think you would benefit from the input of an expert, consider contacting a financial professional.

Source/Disclaimer:

1Diversification and asset allocation do not ensure a profit or protect against losses. Investing in mutual funds involves risk, including loss of principal. Mutual funds are offered and sold by prospectus only. You should carefully consider the investment objectives, risks, expenses and charges of the investment company before you invest. For more complete information about any mutual fund, including risks, charges and expenses, please contact your financial professional to obtain a prospectus. The prospectus contains this and other information. Read it carefully before you invest.

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