Don't Let Economic Troubles Threaten Your Retirement Plans

As the economy has worsened, not only have retirement funds dropped in value with the market, but also many people have been tempted to tap savings as a way to cut debt or otherwise shore up their finances after a job loss. Still more have found that employers have dropped matching contributions to shore up their own finances.

Worry about retirement seems to be widespread. A January survey by the National Institute on Retirement Security noted that 83 percent of Americans are concerned about their ability to retire.

Yet the worst thing you can do is tap or give up on your retirement funds. No one can know with any certainty when the investment markets will rebound, but even if you can contribute something, you stand to gain once markets start to rebound. Even more important, you risk penalties and the lost potential for the earnings if you turn your back.

Before you make a move, seek out some advice. It's a good idea to check in with an expert such as a Certified Financial Planner™ professional to see where your retirement funds stand in light of all your finances before you do anything.

In the meantime, here are things you can do to put your retirement funds in better shape.

Don't stop funding your 401(k) under any circumstances: In March, the Spectrum Group, a Chicago-based consulting firm, reported that 34 percent of U.S. employers have reduced or eliminated matching contributions to their defined contribution retirement plans – which include 401(k)s and 403(b)s – since January 2008. The Pension Rights Center reports that besides the Big Three automakers, dozens of major companies have cut back their match, including Motorola, Starbucks, and JPMorgan Chase & Co. It's a significant impact. *US News & World Report* recently reported that a worker who earns $50,000 annually and receives a full employer match of 50 cents to the dollar on six percent of his or her pay, the match cut means $16,000 less for retirement. An employer dropping its contribution is bad news, but you should make every effort to keep up with your contribution because if you don't, you'll miss valuable tax deductions and the chance to build your funds more effectively for the long term.

Stay invested: Because no one precisely knows when the market is headed up or down it's best to stay invested at a time when everyone is waiting for a rebound. Keep in mind that the market's top performing days typically come at the start of a recovery, so leave your money in your 401(k) and IRAs.

Keep in mind that withdrawing or borrowing your funds can be costly: If you have an emergency situation, be careful. Workplace 401(k) plans do allow for hardship withdrawals, but you might have an option to take a loan, which would save you the taxes and the 10 percent penalty that accompany hardship withdrawals for account holders under the age of 59. The majority of 401(k) plans allow you to borrow up to 50 percent if your vested account balance or $50,000, whichever is less.

Adjust your spending so you can save more: If you have an existing Roth or traditional IRA or other means of saving for retirement, do whatever you can to get more money into these accounts. It may not come close to meeting the shortfall from losing an employer's contribution or the chance to add to a 401(k) after you've lost your job, but it's critical to keep some savings going.

June 2009 — This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Marnie Aznar, MBA, CFP ® , a local member of FPA.