

Don't Let Recession Slow Your Savings

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Right now you should be cranking up your retirement savings contributions, not scaling back.

You may have just lost your job, your company no longer matches your 401(k) or you're just plain broke. In our stressed economy, the last thing many of you are thinking about is saving for retirement.

Financial Finesse, a financial education service based in Manhattan Beach, Calif., whose clients include **General Mills** and **Caterpillar Corp.**, track how their client's employees use their services. They've discovered while most of their clients are concerned with debt (debt questions represent almost half of all calls) 86% of them don't know if they're on track to retire.

Don't be part of that unaware percentage. You should be amping up your long-term savings right now, not scaling back. "The people who have been hurt most [in the recession] are those on the verge of retirement," says Eric Tyson, author of *Personal Finance For Dummies*. "You've got many, many years for the market to bounce back and to do well."

No matter the state of the economy, for those of us in our 20s and 30s time is on our side and there are several reasons we need to take advantage of it.

We have the benefit of compound interest--that hasn't changed. Think back to your basic 401(k) lesson: if you start saving \$5,000 a year with 5% rate of return at age 25 until you retire at 65, you'll have around \$630,000 (before taxes and other fees, of course). Saving the same amount at age 35 will give you about \$350,000. That's almost half of your potential savings you're losing in just a quarter of the time.

When you put money into a long-term savings vehicle like a 401(k) or Roth IRA, in most cases you're investing it into the market--typically through a mutual or index fund.

You may feel nervous after seeing your parents lose retirement money recently; but time is on your side in terms of investing too. What's so great about being young is you have time to ride the ups and downs of the market. You may have heard the expression "stocks are cheap." This basically means the price of stocks that make up your mutual or index funds are low.

While it's true those same stocks are not as valuable, either, if history repeats itself--as it tends to do--the value will eventually rise and you'll have bought more for less. "When stocks do bounce back they tend to do so fairly quickly," adds Tyson.

If you're still feeling nervous you can still save for the long term, just in a more conservative way. "It's not crazy to consider money market funds for now," says Beth Kobliner, author of the newly released *Get a Financial Life: Personal Finance in Your Twenties and Thirties*. "You can also switch to other investments later."

Money market funds are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 (\$250,000 through Dec. 31, 2009). Money funds can be safer than other investments because beyond being backed by the government, typically fund companies make sure their funds maintain a \$1-per-share value.

You may want to be saving for later but are also in need of cash now. Consider other options before you liquidate your 401(k). In most cases if you take out money from your 401(k) before the age of 59.5 you're subject to a 10% penalty fee in addition to regular taxes. "See if you could get a loan from friends or family, or even from the bank," says Kobliner. Or re-work your budget and cut back on other expenses.

If you've just lost your job or your employer has stopped matching your 401(k), you may want to think about rolling that money into a Roth IRA. This basically means transferring all the money into your 401(k) account into a Roth IRA account, sometimes free and other times for a small fee. You can withdraw your Roth IRA contributions (which is the money you've put into the account, not the money you've made on interest, dividends or capital gains) at any time without penalties after five years.

Otherwise, like a 401(k) you need to wait until you're 59.5 to withdraw all Roth IRA money. Even if it is easier, weigh your options before you touch that Roth IRA money. "Sometimes life forces us all to make hard decisions, but it's really important to exhaust all your other avenues before you crack open your nest egg," says Kobliner.

Perhaps after losing your job you've decided to work for yourself. If you're self-employed you still have retirement savings options. Research the SIMPLE-IRA, which in 2009 allows you a yearly contribution up to \$11,500 (for those under the age of 50). Or the Solo 401(k), which allows you to contribute up to \$65,500 of self-employment earnings a year.

There is a lot of wisdom in saving up to six months in cash savings. It's wise to have such a big cushion, but in doing so don't forget about long-term savings. It is challenging to plan 30, even 40 years from now. But doing so should put you in a much better position when you are ready to retire—or start a second career or whatever you'll want to do when you're older. Don't get in the bad habit of spending your savings. You may find yourself doing so every time life throws you a curve ball.

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