

# Don't Give Up Yet

Sure, your 401(k) took a beating. But it can still be a big contributor to retirement savings

**O**KAY, YOUR 401(K) HASN'T LIVED up to the hype, but remember that even Warren Buffett lost \$25 billion in the Great Recession. You've just survived one of the most harrowing periods in the history of modern finance. If you lost less than a third of your portfolio, you fared reasonably well. Your 401(k) may not be all it was cracked up to be, but with tax-deferred growth and a company match, it's still one of the best tools you have to get your retirement back on track. Handled with care (diverse, conservative investments) and given time to replenish (five to 10 years), it can grow large enough to be converted into a meaningful lifetime income stream at retirement. Here's a five-step revival plan.

**Save more.** It's never easy. But it's not as difficult as you may think, and cheaping out is cool today. "It's time to become an obsessive saver," says Dave Ramsey, author of *The Total Money Makeover*. Start looking at what you spend on cars, travel, cable and phone services. You may be able to save hundreds of dollars a month right there. Refinance the mortgage while rates are still low. Use any new savings to pay down your highest-rate credit cards first. An alternative approach is to target your smallest debts first in order to experience success and build momentum to pay off larger loans. Once you've paid off a debt, apply the full monthly savings to other debts and long-term savings.

**Cut off your grown kids.** Nine in 10 parents of adult children admit to having helped their kids financially—and a third of

them concede that this aid is setting back their retirement aspirations, according to financial advisers at Ameriprise. "Have the courage to say no," says Renee Porter-Medley, a financial planner at Key Private Bank in Fort Myers, Fla. State colleges and small weddings are fine; you are under no obligation to help with a down pay-



ment. If the kids need money, let them get loans. They have decades to repay them; you can always help out later.

**Rebalance your portfolio.** Most people don't look at their statements when the market is going south—much less do anything about shifting their asset mix. Look at what you own—now! If you went into the downturn with 60% stocks and 40% bonds and have done nothing, your mix is now about 50-50. You have cut your exposure to stocks just as they have become more likely to rise. How important is it to get back to 60-40 (or any other target mix that has been skewed by volatile markets)? A starting balance of \$100,000 that was 60% stocks and 40% bonds in 1970 and was never rebalanced would have grown to \$2.9 million by 2008. That same portfolio rebalanced annually would have grown to \$3.5 million, according to the Schwab Center for

Financial Research. Keep at least 25% of your stock allocation in foreign companies to hedge against a weak dollar and a lagging U.S. economy. Limit your Treasury securities to 10% of your bond holdings to hedge against a widely anticipated surge in government borrowing rates.

**Be opportunistic.** The recession has an upside. A lot of things you'll need in coming years are cheap right now—like cars and houses and fixed-rate mortgages. Take advantage now to save money in the future. Improve your credit score by reducing your card balances to 10% of available credit. This will shave future borrowing costs. If you're under 50, you have a lot of time to recover, so contribute enough money to get the full match in your 401(k). If you're 50 to 65, take advantage of the catch-up provision that lets you stash an extra \$5,500 in your 401(k) every year. If you are retired, give your nest egg time to replenish by forgoing for five years any distribution

increases you had planned to offset inflation. That simple step puts the odds of not outliving your money back in your favor, according to T. Rowe Price.

**Work longer.** You knew this was coming. Working longer allows you to save longer and delay the date of withdrawals. It also reduces the number of years that your assets will have to generate income in retirement—a powerful combination. In addition, you'll probably be able to postpone collecting Social Security and become entitled to a higher monthly benefit. A typical 62-year-old would boost annual retirement income 22% if he worked three more years and 39% if he worked five more years, says Christine Fahlund, senior financial planner at T. Rowe Price. "Be flexible with your retirement date," she advises. "In today's world of greater longevity, retiring at 60 or 62 is getting less realistic anyway." ■

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