Coping with Retirement Shortfall

More and more often, people over the age of 65 are remaining in (or returning to) the workplace. The reasons for this vary, but most often the reason is money. People either didn't have enough saved, or they have watched what they did have save decrease in value due to the recent bear market. According to the Census Bureau, the number of people working, age 64 to 74, increased nearly 14% between 1998 and 2000.

It wasn't all that long ago that men and women in their early 40s talked about retiring before age 50. No more. Almost 20% of people surveyed in a Gallup poll said they planned to postpone their retirement by an average of 4.5 years. ("Working Past 65," **Consumer Reports**, August 2002, p. 56.)

One problem
The good times were in fact great! For almost 18 years — from August 1982 to March 2000 — the Standard & Poor's 500 Index returned an astounding 19.8% a year. That's more than double the average annual return of 8.8% from 1926 through July 1982. In short, the economy for the last two decades was hot, perhaps unrealistically so. ("The New Rules of Retirement," by Allen Sloan, **Newsweek,** April 1, 2002.)

While recently the market has taken a turn for the better, there are still many people left with a shortfall and facing the possibility that they may have to postpone their retirement.

What can you do? Here are some ideas that may help mend the cracks in your retirement nest egg:

1. **Don't panic.** Stresses Allan Sloan of **Newsweek**, "Don't let irrational depression replace irrational exuberance." ("The New Rules of Retirement," by Allen Sloan, **Newsweek** April 1, 2002.)
2. **Remember that the economy is fundamentally sound**, though the days of double-digit returns may not return for a long time, if ever.
3. **Adjust your expectations.** "If you adopt more realistic expectations," writes Sloan, "you can still save, work hard and retire before you die in harness. It's just not going to be as easy as it was in the '80s and '90s." So, don't waste your time or your money looking to continue earning double-digit returns. ("The New Rules of Retirement," by Allen Sloan, **Newsweek** April 1, 2002.)
4. **Adjust your spending habits.** Many of us have become accustomed to having it all — earning big, spending big, living well, buying that new car and taking two vacations a year. Perhaps it's time to become a bit more conservative.
5. **Adjust your saving habits.** Nobody likes the feeling that they are pouring their savings into a bottomless pit. So, you need to rethink where your money goes. But most of all, you need to continue saving to make up for any current losses. This is not the time to give up, but to accelerate your retirement saving efforts. Consider making maximum contributions into qualified retirement plans, such as your 401(k) plan at work and IRAs. Then consider annuities, which offer tax deferral and the opportunity for lifetime income.
6. **Review your retirement objectives and time lines.** It's very easy to feel somehow cheated as assets have shrunk over the last two years. As a result, many people "are facing the possibility of having to completely alter their retirement plans," explains

Karen Hube with MSN Money. Perhaps you were hoping to retire at age 60. Today, however, perhaps age 65 makes more sense. Another option is semi-retirement, which takes a lot of financial pressure off your retirement savings. ("4 Steps to Salvage Your Retirement," by Karen Hube, **MSN Money**.

7. **Don't put all your eggs in one basket.** Learn from Enron, whereby some people's net worths declined from more than $1 million to about $50,000 almost overnight when the company failed. Instead, diversify for safety. Always a good idea, diversification is crucial today.
8. **Review and revamp your current asset mix.** As almost any financial professional will tell you, the game has changed. Many people are adjusting their asset placement — whether going to new investments or moving more into fixed-return assets, such as fixed annuities or fixed accounts in variable annuities. Perhaps your asset mix is fine. Still, make sure it reflects today's new realities.
9. **Apply the "sleep test" to money decisions.** No one has a crystal ball. When it comes to where you put your money, make sure you are comfortable with the decision. If you're happier putting the remains of your retirement money into fixed accounts for now, go ahead. The most important thing that any investor can do is to do the research. Ensure that you are making the most well-informed investment decisions for your individual situation.
10. **Get good recommendations.** While no one can see into the future, there are people who have the education, experience and research tools to help you make informed decisions. Talk to these people.

The bottom line

What worked well in the last two decades may not be the order of the day for the future. Take the time to adjust, research and prepare to capitalize on the realities as they exist today.

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