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Marc A. Hebert's 'Money $ense': Regaining your retirement savings focus

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ARE YOU stressed about your retirement savings? Don’t feel alone. According to the Employee Benefit Research Institute, 61% of U.S. workers during 2020 felt the same way. The year 2020 continually tested confidence in retirement plans and investment choices. To make 2021 a different year, consider these tips to help you get a fresh start.

Start the process by reviewing your goals. You might have had a savings target based on certain assumptions about how you thought your life was going to go. These assumptions may have changed. For example, you may have gotten married, added a family member, changed jobs, or moved. As goals and circumstances change, the amount you need to save to meet them may change as well.

The next step in the process is to understand your retirement plan. These plans can vary and yours may be different from your neighbor’s. Does your employer plan offer a matching contribution? Is there a profit-sharing contribution? Do you have to wait a period of time until your employer contributions are yours to keep (known as a vesting schedule)?

In a pinch, can you borrow from your employer plan? This is not recommended, but it is good to know just in case there are no alternatives. Instead of borrowing, do you have the ability to take hardship withdrawals? Can you take in-service withdrawals at any point? Does the plan have a Roth 401(k) option? The answers to these questions may be found in a document called the Summary Plan Description.

Review your retirement savings plan contribution rate at work. Are you contributing enough to get the maximum match available? Can you increase the percentage by 1%? You might consider saving any salary increases you receive during the year into the plan. It is the consistency of savings over time that will build your retirement nest egg.

You probably have your retirement assets invested in a certain way, such as according to a target asset allocation. Given the market turbulence, your portfolio may have drifted away from your target. But before you rebalance, ask yourself this: Does your current asset allocation meet your goals? Regardless of whether or not you keep your existing allocation or adopt a new one, you need to make sure your asset mix is appropriate for your situation. If it is, then you can proceed with selling assets in overweight classes and buying assets in the underweight classes. This can be done all at once or over time. Before making changes, be sure to review the tax consequences. Keep in mind that rebalancing is a risk control measure and not a guarantee that you will make money.

It also makes sense to review your savings in light of your current tax picture. Some plans, such as a traditional IRA or 401(k), give you a current tax deduction for contributions that you make. The caveat here is that the money is then taxed when you withdraw the funds. Other plans, such as a Roth IRA or Roth 401(k), don't give you any current tax benefit but enable you to withdraw the funds tax free if certain conditions are met.

Which should you choose? If you feel you might be in a higher tax bracket during retirement, you might want to choose a Roth type of plan. Alternatively, if you feel your tax bracket will be lower in retirement you might choose a traditional IRA or 401(k). If you are young and just starting out, the tax deduction may not mean that much to you. In this case you might want to choose a Roth IRA for years of tax-free earnings and the potential for tax-free withdrawals during retirement. Another strategy is to hedge your bets and contribute to both types of plans.

In any event, given the choices you face, you may want to discuss the specifics of your individual situation with a certified financial planner.

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