Preparing for Financial Crisis in Retirement

Crises during retirement can come in many forms: divorce, catastrophic medical expenses, natural disaster, disability, care for an elderly family member, or loss of an income source. Experiencing these financial setbacks in retirement can be especially overwhelming. Thoughtful planning for a potential crisis now can make the recovery period faster and less painful later.

Make sure you have enough saved to pay for unexpected events. If you have a retirement plan at work, such as a 401(k) or 403(b), and your employer makes matching contributions, be sure to save the most you can to earn 100 percent of the matching contributions. If you do not have an employer-sponsored retirement plan, consider contributing to an Individual Retirement Account (IRA). Making risky investments in hopes of big returns is tempting, but a safer way is simply to save more.

Reduce your debt sooner rather than later. Pay down your mortgage and any consumer debt as quickly as possible. You will have more cash to deal with a crisis in the future if you are out of debt.

Keep a reasonable percentage of stocks in your retirement portfolio. If you are nearing retirement, keep track of the overall amount you have invested in equities (stocks), such as mutual funds or exchange-traded funds. If you have too little in stocks — by investing too conservatively — you risk running out of money in your later years. If you have too much in stocks, you could be forced into selling when market conditions are bad.

Overcoming a Financial Crisis in Retirement

If you already are settled into your retirement and have been dealt a significant financial hardship, don’t despair. Start by making some immediate cutbacks and rebuild from there.

Cut back on expenses. Small changes now quickly can add up over time:

- Rent movies or borrow them from the library instead of seeing them at the movie theater.
- Take the weekend newspaper subscription instead of the daily version, or cancel altogether and read online.
- Change your cellphone package to a less expensive version that still works for you, and drop your landline if you can do without it.
- Pack your lunch.
- Make coffee at home.
- Unplug unused electronic devices.

Make drastic changes. Depending on your situation, you may have to make larger cutbacks as well:

- Refinance your mortgage to a lower interest rate.
- Sell a car and use public transportation; or sell a higher-value car and buy an inexpensive replacement.
- Suspend your retirement saving contributions for a period of time.
- Switch from more expensive whole-life insurance to less expensive term-life insurance.

Let your child pick up more of his or her college expenses. Have your child rely more on student loans and/or his or her own earnings than on your support for help with college expenses. You always can help your child pay down his or her loans after he or she is out of school if your financial situation has improved. Even if your child has to take out more loans, remember that he or she has a lifetime to pay down the loans while you have less time to save and prepare for retirement.

Downsize your home or rent a place to live. If local real estate conditions allow, consider selling your home and purchasing a less expensive replacement to reduce your debt and overall housing expenses. If you cannot afford to buy a replacement home, don't overlook the idea of renting a less expensive home and saving the difference.