

Do Recessions Affect Retirement?

With any recession comes anxiety and uncertainty about retirement. For many of us, retirement may be soon approaching, or our IRA accounts may be tied to major indexes that could potentially not give back gains made during economic prosperity. What can we do to mitigate these concerns?

Best Practices to build for your retirement during economic uncertainty:

- 1) Max out your 401k contributions if you work for a corporation that offers this benefit. Not only does it defer taxes, but you have the added benefit of compound interest working in your favor. If you can't contribute the maximum of \$788 per paycheck, create a budget and find out how much you can contribute while ensuring you cover all monthly expenses[1]
- 2) Consider increasing your savings by reducing costs and keeping an eye on expenses. In 2022, Americans, on average, spend \$133 more on subscription services than they thought they did. Meaning, if you assume you spend \$250 a month on subscription services, you actually spend \$386. Cutting on excess items you don't need or regularly use can save thousands a year. Over the course of an adult's working life, the savings found yearly can be invested into retirement funds and benefit from compound interest, allowing you to reach your retirement goals faster [2]
- 3) Watching spending and increasing savings also goes a long way towards creating an emergency fund. 58% of Americans believe they do not currently have enough emergency funds to weather hard times. Simple best practices such as budgeting, cutting costs, and increasing cash flow can help quickly address this issue.

The chart below highlights key economic downturns in the last 25 years. When you zoom out, recessions do not last nearly as long as times of economic growth, but can have fundamental effects on your financial health if you aren't prepared. Building savings habits for downturns lead to more growth and preparedness during times of growth.

Sources:

[1] Foster, Sarah. "How to Prepare Your Finances for a Recession." Bankrate.

<https://www.bankrate.com/banking/federal-reserve/how-to-prepare-for-a-recession>

[2] O'Brien, Sarah. "Consumers Spend an Average \$133 More Each Month on Subscriptions than They Realize, Study Shows." CNBC, CNBC, 2 June 2022.

<https://www.cnbc.com/2022/06/02/consumers-spend-133-more-monthly-on-subscriptions-than-they-realize.html>

