Retirement plans need a disaster contingency

Q: I'm scheduled to retire in two years. I'm nervous even though I've done the math and the projections show that I'm on track. What potential catastrophic events could derail my plan?

A: Check your numbers and start creating contingency plans. Think of it as a potential 'disaster recovery plan' that you may have to use when life surprises you.

If you lose your job before your target retirement date, you could miss out on your highest income years and reduce your retirement savings contributions. This could cause you to switch from saving for retirement to spending retirement savings early. Or, you might have to get another job and postpone your target retirement date.

How's your portfolio? Do you have a concentrated position in a single stock? Add together all the shares of stocks you own and include all stocks in all places. If one stock exceeds 10% and it crashes, will your retirement plan survive? Think Lehman, AIG, GM, Enron and Worldcom.

The stock market has performed very well since March of 2009, and I won't remind you what happened in the previous two years. Your goal is to NOT take withdrawals when the stock market has suffered a major price decline. Keep your short term cash needs in liquid investments like high quality, short term bond funds.

Review your investing discipline and don't even think about chasing hot stocks or market timing. Several news reports would have caused you to miss out on 2013 returns. Invest for the long term, diversify, and keep funds available to ride out the inevitable market cycles. Remember, history has shown that stocks go up about 70% of the time.

An emergency fund gives you a cushion so you won't have to take withdrawals when you have the inevitable emergency. And only use these funds for bona fide emergencies.

Cover potential catastrophic losses with insurance or create a contingency plan for the loss. What are the consequences of not insuring your home? Or electing not to insure for hurricane damage? Could your home flood? Can you afford to repair or replace your home and if not, where will you live?

Employer-provided health insurance usually ends when you leave your job and COBRA is limited. How much will health insurance set you back if you don't have a job? Is your life insurance portable or through a company plan? Will your dependents need your life insurance benefit and should you apply for a policy? Consider insurance needs before life transitions. Get insurance while you're insurable.

Taking Social Security early, or for the wrong reasons, can cost you a bundle. Your decision should be based on income needs and your anticipated longevity. Where else can you get an 8% annual risk-free growth rate? All you have to do is live beyond the breakeven year (usually age 80ish). If you take it early and change your mind, you only have one year to undo it.

Using your funds to pay for family member's college, medical needs or support can derail the best of retirement plans. Don't overlook areas where you're willing to spend your savings; it may require you to change your retirement plan.

Review and update beneficiary designations when the family situation changes as these designations take precedence over wills and trusts. Keep your estate planning documents up to date.

Of course, you also may discover that your long-lost aunt has passed and left you a million dollar inheritance. This event would be quite manageable.

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