The American IRA & 401(k) Crisis

RedTea

Are You Aware of the American IRA/401(k) Crisis?

American investors are in the midst of an IRA/401(k) crisis that's getting worse, and could cause their retirement savings to crumble. About 30% of US workers don't have access to workplace-sponsored retirement plans, and only 56% of workers even participate in those plans.[1] That indicates a lack of motivation to start saving for retirement. And that lack of savings has been described as the "retirement revolution that failed."

While things started off quite well following the introduction of the Individual Retirement Account (IRA) in 1974[2] and the launch of the 401(k) in 1980[3] , numerous headwinds have placed major obstacles in the path of those saving up to achieve the all-important American Dream. A plateau in savings progress is noticeable more than ever, with a large portion of Americans failing to save enough for retirement. Whereas many financial planners cite the need to have $1 million saved in order to retire comfortably[4], the median household's retirement savings are only $65,000, which is expected to yield only $255,200 in savings by retirement age.[5] That just isn't going to cut it.

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It is no secret that the world of finance can often be volatile and hard to predict, but this doesn't mean that there isn't a chance to build up your savings and create a comfortable future for you and your family. Even if your financial outlook seems bleak right now, there is still a chance for you to take charge and rescue your retirement. There is much to be learned both from historical experience as well as the actions of successful retirees. With careful study, you can minimize the chances that the looming IRA/401(k) disaster will wreak havoc on your retirement dreams.

How confident do you feel about your financial situation? You may be feeling better than you were during the 2008 financial crisis, but you're probably still worried about economic headwinds. High inflation, stock market volatility, and economic uncertainty are hallmarks of the economy today. And even if your 401(k) or IRA accounts made great gains during the bull market, you're probably still concerned about keeping all of that wealth.

While most American retirees feel confident about their retirement,[6] a sizable number haven't saved nearly enough for retirement. And even among those who have saved a fair amount of money, all it could take is one market downturn or financial crisis to put their retirement savings in jeopardy.

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An economic downturn would certainly place many retirees in financial difficulty, and worsen what is already a growing IRA/401(k) crisis. How would your retirement savings fare if this crisis were to worsen?
Are you prepared for rising healthcare costs? How would you cope if your retirement savings were to lose 30-50% of their value? Have you sat down with your financial advisor or tax advisor to brainstorm these types of scenarios? More than likely you haven't yet, but you're interested in learning how to help protect your retirement savings against this growing crisis. And with proper planning you could put yourself in a position to weather any difficulty, keeping you from having to put off retirement or go back to work after retirement.

The Retirement Savings Requirements

Isn't retirement meant to be a time when families cherish one another and the finer things in life? Unfortunately, what should be a happy time is quickly turning into a daunting time, because the required savings seem pretty impossible to achieve for most. Ideally, by the time someone turns 35 their retirement savings should be at least as large as their salary, double their salary by age 40, and triple their salary by age 45. By the time you reach retirement age at 65, your retirement savings should be 11 times your salary.

Many Americans look to their parents for a model of what retirement should look like. But an increasing number of people won't enjoy a retirement as good as their parents' retirement. Too many people don't have enough saved for retirement, and will have to make hard choices about whether they can afford necessary expenses, such as food, healthcare, and housing.

What Is The True Cost of the Crisis?

The latest Employee Benefit Research Institute (EBRI) survey found that 21% of American workers have less than $10,000 saved for retirement. And another 46% have between $10,000 and $250,000 saved.[7] That means that 2/3 of workers have far less than the $1 million that many experts say you need to retire comfortably.

How has this happened? If you look at the traditional "three-legged stool'' (Social Security, savings, and pensions) model of retirement income, you'll see that retirement security has weakened immensely.

Only a little over half of American workers even participate in a workplace retirement plan.[8] And more than half of Americans have less than 3 months of emergency savings on hand.[9]

That leaves millions of Americans hoping that their Social Security "safety net" is enough to keep a roof over their head, feed them and generally allow them to lead a happy life. But the likelihood is that retirees expecting to depend on Social Security for retirement income may get a very harsh wakeup call.

Social Security Income Stability

For quite some time, Americans have been relying on Social Security income as a way to supplement their retirement income. But an increasing number of retirees are becoming dependent on Social Security, which could be dangerous as the system continues to face financial pitfalls.

Nearly 65 million people receive nearly $1.1 trillion in Social Security benefits each year.[11] But Social Security is only supposed to provide about 40% of retirement income.[12] And with Social Security's trust fund expected to run out in 2033, with payroll taxes only able to pay 76% of expected benefits,[13] anyone expecting to rely on Social Security could find themselves in a difficult position.

Understanding the Complexities of Retirement Planning

Just because the country is in the midst of an IRA/401(k) crisis doesn't mean that you have to fall victim to this crisis. There are a number of steps you can take to maximize your retirement savings and minimize the risk that you'll come up short in retirement.

Here are a few things that could help you keep your retirement planning on track:

Inflation-Proof Your Savings
Rising inflation is becoming a problem for many workers and retirees. Now is the time to start protecting your retirement savings from losing value to inflation. That can include converting your assets into gold and silver, which historically gain value during times of high inflation.

Retirement Plan Options
Most people are familiar with 401(k) and IRA accounts, and the conventional assets such as stocks and bonds they can invest in. But fewer people are aware that they can open a self-directed Precious Metals IRA, allowing them to invest in gold and silver while still enjoying the same tax advantages as a conventional IRA.

Retirement Plan Ownership: Self-Directed vs. Traditional IRA
Most people are familiar with Traditional IRAs, offered by many brokerages. But a self-directed IRA can offer you more investment options and greater control over your assets.

Contacting a Professional for Account Management
Whether you have already set up an IRA/401(k) account or are in the process of doing so, communicating with an expert can be beneficial. Having someone to talk to during hard times can help prevent you from panicking and making typical blunders, such as selling at the bottom of a stock market crash, or withdrawing money from retirement accounts and being hit with taxes and penalties.

Misconceptions of Bonds
There are some major misconceptions surrounding bonds, with many Americans believing that bonds aren't risky, and that investing in bonds is one of the safest options out there. But with a growing debt bubble that could burst soon, bonds may be riskier than many people realize. So diversifying your portfolio means more than just adjusting your ratio of stock and bond holdings.

Portfolio Diversification
Many investors think that investing in a mixture of stocks and bonds is sufficient diversification. But in the event of a systemic financial crisis, the same factors could contribute to both stocks and bonds losing value.

That's why many savvy investors like to diversify outside of just traditional financial assets, and turn to alternative assets such real estate, commodities, and precious metals such as gold and silver. A self-directed IRA is one vehicle you can use to invest in these various alternative assets.

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