Steps You Can Take For Filling Your Pension Gaps

After a lifetime of hard work, many people expect to retire in some comfort and enjoy their remaining years. In some lines of work, especially public service professions like police and firefighting, the retirement package is a big part of the recruitment process. Yes, the hours are long and the work is dangerous, but the community values the services these individuals provide and the professionals appreciate the assurances that they will be taken care of after their working years have ended.

However, with states facing increasingly harsh economic times, many in government have been rethinking this arrangement. More people are living longer, which would otherwise be good news. In this context, though, the additional payouts are part of what's creating a budget crunch. Many states, notably Illinois and Michigan, have been embroiled in efforts to cut benefits to retired workers.

According to economist Andrew Biggs, these difficulties stem from a chronic underfunding of benefits programs by state and local governments over the past decade. Faced with losses in tax revenue caused by recession, states and localities saved money for the present by not paying for the future. After years of this conduct, these programs are now running out of money.

Private sector pensions aren't safe either. Several large, multi-employer firms have been attempting to renegotiate their benefits structure. It's a move, according to Central States Pension Plan, designed to prevent them from running out of money. Labor unions, faced with decreasing employment and stagnant wages, are simply running out of money to pay existing beneficiaries. They may see even greater struggles as the pool of retirees expands.

The good news is that attempts to decrease current pension benefits have consistently met with resistance. This week, the Treasury Department rejected Central States' petition to reduce benefits in a ruling that is consistent with other attempts to reduce existing benefits. If you're currently on a pension, you may see a reduction in cost of living adjustments (COLA), but your benefits will likely continue as-is. If you're counting on a pension to cover some or all of your retirement needs, though, you may be in trouble. Whether or not the reforms go through, pension-providing agencies are facing a funding problem that's in need of resolution.

If you're fairly new in your career, you've got plenty of time to adjust. You'll need to re-evaluate your retirement planning strategies, but there's still time to ensure you can retire safely and comfortably. If you're closer to retirement, you'll need to take action sooner to address this shortfall. Either way, try these steps:

1.) Re-evaluate risk

If you have private retirement funds, you may have been investing them fairly aggressively. You could afford to lose that money since your retirement income was guaranteed. Pursuing higher returns offered by a slightly riskier strategy makes sense in that instance.

Without a safety net, though, those private retirement funds have got to last. Switching to a more conservative investment strategy will help you protect your nest egg in the event that your pension program falls through. You'll see smaller returns, which may mean staying at work a little longer to fill the retirement bucket, but you'll protect the retirement funds you do have.

2.) Cut your expenses

If you can't increase your retirement income, the next best bet is to reduce your retirement expenses. For some of these, like utilities and other necessities, there's little you can do. Many other expenses, though, are well within your means.

If you were planning to "downsize" when you retire, it might make sense to do so sooner than planned. If you can sell your house and move to a smaller location, doing so a little early might give you more investment capital. It'll also lower your month-to-month expenses now, enabling you to put more money away for retirement. If you have adult children who are still living at home, it may make sense to help them get into a rental of their own. The increased cost of paying their rent may be offset by the decreased monthly expenses of a smaller home.

Another expense you can control is taxes. If you're over 55, you can make "catchup" contributions of $6,500 to a Roth IRA, which will provide you with tax-free growth. Similar additional deposits in a 401(k) plan can also help make up for a lack of investment earlier. You can also make a conversion of funds from a traditional 401(k) or IRA to a Roth account, provided you pay taxes on them when you make the withdrawal. It might make sense to absorb these taxes now while you have the income to cover them rather than to wait until you're depending on your assets for all your income.

Yet another way to minimize your tax burden is to contribute to a Health Savings Account (HSA). These plans allow for tax-deferred deposits and tax-free withdrawals to pay for medical expenses. You're almost certainly going to have medical expenses in your golden years, so making the most out of these accounts while you're working can be a big help.

3.) Adjust your plans

It's easy to catastrophize the decline of pension benefits. The immediate response might be despair and hopelessness. While it's justifiable, it's not a useful response. This bit of information requires you to change your plans. That's all.

If you were planning to quit work as soon as you turn 65, you may have to change that plan and work a little longer. These are your peak income years, so it won't be as much time as you think, especially with an intentional savings plan that's designed to get you to your goal as soon as possible. Staying on a few more years is frustrating, but survivable.

You might also have to change what retirement looks like. It might mean getting a part-time or freelance job for the first few years to keep from cutting too much into savings. It might mean more limited opportunities to travel. Perhaps retirement involves a side hobby like furniture restoration or automotive repair that can generate a little income. These plan changes don't mean you're not going to retire, only that retirement means something slightly different now.

Your turn: What are your plans to close the gap between your retirement dreams and your work reality? Any tips to share with your fellow savers?

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