Change When You Age

When the stock market experiences a downturn, many people become extremely nervous and retirement plan investors are no exception. Should you change your investment strategy to protect your retirement plan assets? It depends. You've allocated your assets based on your age, the time you have until you retire, and your tolerance for risk. Generally speaking, the ups and downs of the market are not reason enough to change. Time is on your side. But if your time horizon is short, fine-tuning your plan may be a smart thing to do.

Let's follow Sally, a hypothetical investor in her 50s, to see how she allocated the investments in her retirement plan throughout her working years and what she's doing now to protect her hard-earned retirement dollars. This hypothetical illustration is not meant to represent the experiences of any individual. Should you wish to apply this information to your individual circumstances, please take into account any assets, income or investments you may have in addition to your interests in a retirement plan.

Getting started

When Sally was in her early 30s, she had already been investing for several years. She still had more than 30 years to invest for her retirement, so she took advantage of both her retirement plan and her IRA to contribute as much as she could—to get the most potential benefit of compounding in her accounts. She had enough time to make up for the inevitable gains and losses in the market, so she went for growth and aggressively allocated 80% of her money to stock funds and 20% to bond funds and cash.

Building wealth

In her 40s, Sally was earning more money, but also paying college bills and a mortgage. Because she wanted to protect her money from short-term market swings when she had such big expenses, she moved about 20% more of her assets into bond funds and cash, for a total of 40%. She still invested as much as she could during these years, and continued going for growth—by keeping approximately 60% of her assets in stock funds.

Preparing for retirement

Now in her 50s, Sally wants to protect her retirement dollars. She only has about 10 years left until she retires and the stock market has been experiencing a downturn.

Sally worries about having enough money to live on when she's retired, and she's afraid that higher inflation could eat away at the value of her assets. To help reduce risk, she increases the amount she allocates to bond funds and cash, and reduces the percentage allocated to stock funds as a potential hedge against inflation.

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