Why You Should Keep Saving for Retirement During a Recession

Description

The coronavirus is driving the global economy into a recession. Stock markets are very volatile and it’s hard to tell where they’re headed. While it’s normal to be worried, you should continue to save for your retirement.

Save for your retirement if you can

You should set aside a small portion of your income for your retirement savings, ideally 10% to 15%.

If you still receive a paycheck or another regular source of income, there’s no point in stopping contributing to your RRSP to free a little more money. After all, it’s not as if your cost of living rises.

Also, you may not have as much extra money as you expect if you stop making contributions, as you’ll get a higher tax bill.

You should only stop saving for retirement during the pandemic if you need money for your expenses or if you do not have an emergency fund covering expenses for three to six months.

While an emergency fund will be helpful if you get sick or lose your job, you should consider contributing again as soon as possible.

Staying invested will pay off in the long run

What we have learned from past recessions is that investors who stopped making regular contributions and sold stocks left them behind than those who stayed the course.

A study by Teresa Ghilarducci, director of the Schwartz Center for Economic Policy Analysis at the New School for Social Research, showed the negative impact on those who stopped or decreased their contributions during the 2008-2009 recession. People who came out of the markets sold low and bought high. We have to buy low and sell high to make money.

After the Great Recession, 64% of high-income workers and 56% of low income workers saw their accumulated retirement savings increase.

The people who stayed invested did better, as when you sell stocks to miss the bad days, you also miss the good days.

When you aren't invested in the stock market, you'll always wonder about the right time to start. But no one knows. The market may have already hit a bottom.

When the stock market rebounds, we don't know if it will last or whether it will plunge later. Because we can't predict future market movements, you can miss significant gains if you try to time the market.

Investing in the stock market generally requires a long-term approach. If your retirement is far in the future, you have time to recover your losses. These losses are on paper and you only realize them when you sell your investments.

When stocks go down, not panicking and doing nothing is usually the best thing to do. A stock market crash could actually be a good time to buy stocks because they are trading at attractive prices.

Warren Buffett always says that you must be fearful when others are greedy and be greedy when others are fearful. Buying stocks during a market crash could be rewarding.

It's a good idea to review your RRSP to make sure it's diversified enough. The appropriate asset allocation will vary based on your age and risk tolerance.

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