

MY MONEY

FINANCIAL EDUCATION - Powered by CAMBRIDGE CREDIT COUNSELING

Worried about your 401k in today's economy? Keep calm and keep participating.



The nation's economy has been on a roller coaster ride since January, and many Americans with 401(k) retirement plans are wondering how to protect their savings. Whether you're nearing retirement or just beginning your investment journey, navigating economic uncertainty during a period like this can be intimidating.

The upheaval we've witnessed lately, from trade wars to tax reform, from deregulation to privatization, features the kind of rhetoric that spooks Wall Street and has historically led to slumps and surges in the financial markets. At the end of the day, however, one question remains: what should 401(k) holders do now?

Cambridge's specialty is credit counseling. We don't provide retirement or investment counseling, so please bear that in mind as you read on. Unfortunately, however, because we're hearing more and more of you express your worries about your retirement accounts, we feel obligated to respond. Here then, are our suggestions for managing your 401(k) in today's turbulent economy:

1. Reassess your risk tolerance

During periods of economic uncertainty, your personal tolerance for risk should guide the decisions you make about the investments within your 401k.

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With summertime fading away and the crisp air of autumn almost settling in, now is the perfect time to refresh your savings and budgeting habits before the holiday spending rush begins. As vacation season winds down and kids head back to school, families have a golden opportunity to reassess their finances, plan ahead, and build a stronger financial cushion before the year ends.

Reevaluate Your Budget

Start by taking a close look at your current budget. The cooler months often bring a shift in spending patterns—higher utility bills as heating systems kick in, added school expenses like supplies, extracurricular fees, and seasonal clothing, plus the temptation to splurge on pumpkin-spiced treats, fall décor and cozy comforts.

- Review your monthly spending: Categorize your expenses into essentials (housing, utilities, groceries) and non-essentials (dining out, entertainment, shopping).
- Set realistic goals: Create a budget that reflects your needs while allowing room for occasional indulgences.
- Establish clear limits: Define spending caps for discretionary items to avoid impulse purchases that can derail your financial plans.
- Planning ahead now can help you avoid overspending later - and prevent the burden of extra credit card debt during the high-spending holiday months.

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Understanding the importance of insurance: A practical overview.

Insurance is one of those essential safeguards that many people recognize they need, yet often postpone thinking about until a crisis arises - at which point, it's usually too late to explore options. At its core, insurance serves as a financial safety net, designed to protect individuals, families, homes, and businesses from unexpected events that could significantly disrupt financial stability.



Auto Insurance

If you own a vehicle, auto insurance is not only a legal requirement in most states — it's a critical layer of protection. It covers damage to your vehicle and others in the event of an accident, and may also assist with medical expenses and legal costs. Even the most cautious drivers can find themselves in unforeseen situations, and a single accident can result in thousands of dollars in damages.

Homeowners and Renters Insurance

For homeowners, insurance is indispensable. It protects the structure of your home against risks such as fire, storms, and other hazards, and typically includes coverage for personal belongings and liability. Renters often overlook insurance, assuming the landlord's policy covers their possessions — but it does not. Renters insurance is generally affordable and provides valuable peace of mind in the face of unexpected events.

Health Insurance

Medical expenses can be extraordinarily high, and even a single emergency room visit or surgical procedure can deplete savings. Health insurance helps mitigate these costs, ensuring access to necessary care without incurring overwhelming debt. Even basic coverage can make a significant difference in

Life Insurance

If you have dependents — such as children, a spouse, or aging parents — life insurance is worth serious consideration. While it may be uncomfortable to think about, life insurance ensures your loved ones are financially supported in the event of your passing. It can help cover funeral expenses, pay off outstanding debts, and provide a financial cushion during a difficult time.

Strategies to Reduce Insurance Costs

While insurance is vital, it doesn't have to be prohibitively expensive. Consider the following cost-saving strategies:

- **Compare Providers:** Rates vary widely, so obtaining multiple quotes can lead to significant savings.
- **Increase Your Deductible:** A higher deductible typically results in lower monthly premiums — just ensure you have funds set aside to cover it if needed.
- **Bundle Policies:** Many insurers offer discounts when you purchase multiple policies (e.g., auto and home) from the same provider.
- **Ask About Discounts:** Inquire about savings for safe driving, home security systems, upfront payments, or long-term customer loyalty.
- **Review Annually:** Life changes — such as paying off a loan or upgrading your home — can affect your coverage needs and premiums. An annual review ensures your policies remain aligned with your current situation.

Final Thoughts

Insurance is about protecting what you've worked hard to build. Take the time to evaluate your needs, explore your options, and ensure your coverage reflects your lifestyle and priorities.

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2. Diversify, Diversify, Diversify

As we're discovering right now, a tariff war can impact some sectors more than others. For example, the freight and agricultural sectors have already been hit hard, while manufacturers who don't use parts from overseas sources may be unaffected. This kind of sector-specific volatility illustrates the importance of diversification.

If your 401(k) is heavily weighted toward one type of industry, consider rebalancing it. Many target funds will automatically reduce the overall risk of your portfolio, but even then, it's wise to review your allocations and ensure they match your needs.



If your employer offers a matching 401K contribution, always contribute at least enough to get the full match. This is essentially free money added to your retirement savings.

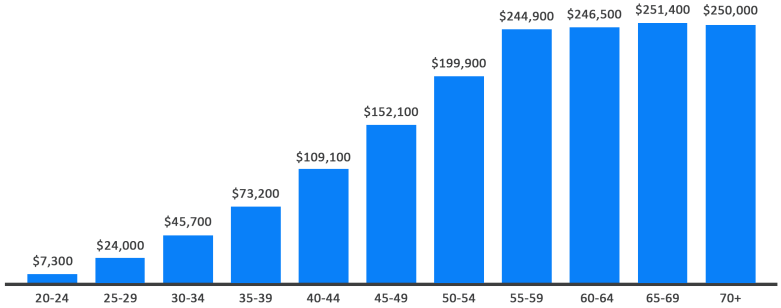
3. Don't Panic-Sell

Although the first quarter of 2025 has seen some remarkable losses, the most damaging reaction to a market dip is panic-selling. History shows that markets recover. If you sell during a downturn, you lock in your losses and miss out on the eventual recovery. It's crucial to stay the course and remember that 401(k) plans are long-term investment vehicles.

If you're decades away from retirement, market downturns may actually represent buying opportunities. If you're closer to retirement, having a portion of your portfolio in more stable investments will reduce the temptation to sell during a downturn, even one as significant as we've seen over the past few months. This would be the time to talk to your plan's manager to discuss your options.

Average 401(k) balance, by age

Source: Fidelity Investments Q4 2024 401(k) data based on 26,700 corporate defined contribution plans and 24.5 million participants as of December 31, 2024.



4. Keep an Eye on Inflation and Interest Rates

At its most recent meeting, the Federal Reserve declined to reduce interest rates, which is its primary tool to combat inflation. If that trend continues, your 401(k) could be affected in multiple ways. Rising interest rates typically help your savings account and CD rates, but they generally hurt long-term bonds and certain growth stocks. Consider adjusting the bond holdings in your plan or look into Treasury Inflation-Protected Securities (TIPS) if inflation is rising. Keeping some exposure to assets that perform well during periods of rising inflation can also serve as a hedge.

5. Stay Informed, Not Reactionary

Political noise can distract from long-term planning. The first quarter of 2025 has seen almost unprecedented uncertainty, and it's no secret that markets dislike uncertainty. However, overreacting to headlines is rarely a sound investment strategy. Stay informed through reputable sources and keep your focus on long-term economic trends, rather than panicking over day-to-day market swings.

If your employer offers financial counseling or planning services as part of your 401(k) plan, take advantage of them. Regular check-ins with a financial advisor can ensure your portfolio stays aligned with your goals, even in a shifting economic landscape.



Create and maintain your household budget on our MyMoney Budgeting Portal!



[MyMoney.Cambridge-Credit.org](https://www.mymoney.cambridge-credit.org)





Smart budgeting before the holidays.

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Shop Early and Strategically

One of the smartest ways to save during the fall is to start your holiday shopping early. Many retailers begin offering pre-holiday sales in early fall, giving shoppers a chance to snag gifts, winter gear, and seasonal items before prices rise.

- Make a gift list now: Jot down names and gift ideas early to stay organized and avoid last-minute panic buys.
- Compare prices online: Use price-tracking tools or browser extensions to find the best deals.
- Take advantage of loyalty programs: Many stores offer exclusive discounts or cashback for members.

Shopping early also spreads out your spending, making it easier to manage your cash flow.

Host Smart, Celebrate Together

If you're hosting family gatherings this season, consider budget-friendly alternatives that still feel festive and warm.

- Try potluck-style dinners: Sharing the cost of meals not only saves money but also brings more variety to the holiday table and encourages everyone to contribute.
- Plan ahead for meals: Buy non-perishables in bulk and freeze ingredients to avoid last-minute grocery runs.

Get Creative with DIY Decor and Gifts

- Instead of pricey decorations and store-bought gifts, tap into your creative side! Make your own wreaths and garlands with natural elements like pine cones, dried oranges, and twine for a rustic look.
- Bake seasonal treats: Cookies, breads, and spiced nuts make thoughtful gifts that are budget-friendly.
- Craft personalized gifts: Handmade candles, photo albums, or knitted scarves show care without breaking the bank.

Watch Out for Sneaky Expenses

Small, everyday expenses can quietly drain your budget if left unchecked.

- Track your spending for a week: Use a notebook or budgeting app to log every purchase, no matter how small.
- Cut back on extras: Consider canceling unused streaming subscriptions, brewing coffee at home, or packing lunches instead of eating out.
- Redirect savings: Funnel the money you save into a holiday fund or emergency savings account.

Set Seasonal Financial Goals

Use this transitional time to set short-term goals that align with your long-term financial vision.

- Create a holiday savings plan: Decide how much you want to spend and save a little each week to meet that target.
- Start a no-spend challenge: Pick a week or weekend each month to avoid non-essential purchases.
- Review your financial priorities: Whether it's paying down debt, saving for a trip, or building an emergency fund.

A little planning and creativity this fall can go a long way toward keeping your finances on track. By making the right choices now, you'll be better prepared to enjoy the holiday season with less stress and more joy—knowing your budget is working for you, not against you.

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