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Retirement Planning in the Current Economy

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The current economy has had financial impact on many aspects of family life including plans for retirement. No doubt, you have heard someone say, "I don't even want to look at how much money I've lost in my retirement fund!"

Even though "looking" may be difficult, everyone should stay aware of their retirement funding status and take the action steps needed to achieve their long-term retirement goals. Workplace funds may have changed but they are indeed still an important asset. I encourage participation in these programs especially when there is an employer match – it's like free money! As many have said, the market will turn around, don't panic, and stay with the program!

So what actions do I suggest for retirement planning in these circumstances? Determining the amount of money that will be needed for retirement is still based on accumulated wealth, growth rate of invested dollars including workplace retirement funds; number of years between now and retirement; amount of income needed during retirement; as well as the number of years one plans to be retired. Having an updated personal net worth statement is a good place to start this determination. Include the significant adult in your life as you take this action step!

The net worth statement compares assets and liabilities. The difference is net worth. Current assets are listed as actual or estimated fair market value and usually include cash in saving and checking accounts; cash value of insurance policies, home, personal property, real estate investments, business interests, stocks, bond, CDs, IRAs, annuities, workplace retirement funds, profit-sharing, and other cash value items. Current liabilities listed as short and long term include home mortgages, home equity loans, family/friend loans, credit card balances, and other creditors to which money is owed.

Ideally, when you get close to retirement, your net worth asset list should be longer than the liability list because retirement income is often less than pre-retirement income. Many financial professionals will suggest paying off a home mortgage before retirement. For some, paying off the mortgage before retirement may be a new goal given how the current economy may have changed retirement income. How many creditor debts will you be able to afford if you have less retirement income?

The workplace human resource or benefits department can help determine the time between now and retirement. Make sure you are aware of all options especially if you now qualify for retirement. People make their most positive choice when all needed information is gathered!

Determining how much money will be needed in retirement starts with knowing how much you need before retirement. Update your monthly spending plan of expense categories for savings, housing, transportation, health, food, payments, personal, and recreation. What percent of net income do you currently spend monthly for each of those categories? Will you need to spend that much for each category when you are living on a retirement income? If you plan to have less income during retirement, what changes in spending will need to be made?

Make your best estimate for how long you plan to be retired – if you are healthy, go long on your estimate! Long term planning is still the key, even in this economy!

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