Money and You: Holding the line on retirement

by Carrie_Schwab_Pomerantz

In a recent column I talked about the positive reasons for postponing retirement. But to a lot of folks today, merely postponing retirement now seems like a pipe dream. As they've watched their net worth decline, some are convinced they'll never be able to retire at all.

Is there anything you can do to keep your retirement dreams alive? I say yes. Just keep doing much of what you've been doing to prepare for retirement â€” only with more effort and for a longer period of time. Whether you're concerned about watching your retirement savings dwindle or you're behind and need to catch up, I believe these steps will help you focus today so you can still think about retiring someday.

1. Take a Fresh Look At Where You Stand. To determine how close you are to your retirement goals, first tally your assets (what you own) and your liabilities (what you owe) to come up with a net worth statement. Here's how:

â€” Make a list of your assets: bank accounts, home equity, the current value of investment accounts (including retirement accounts), business interests, cars and other personal property, and the accumulated value of insurance policies.

â€” List your total liabilities: what you owe on your home, credit card balances, car payments and any other loans.

â€” Subtract your liabilities from your assets to come up with your personal net worth statement.

It can be as simple as doing the math with pencil and paper. Or use an Excel spreadsheet that you can easily update. Whatever the method, having a realistic idea of your net worth can be your reference point as you take the following steps.

2. Create a Budget and Stick With It. Take a hard look at what you earn and what you spend. If you've let your budget lapse, bring it back into focus by following this simple formula:

â€” Divide your expenses into two categories, nondiscretionary (the must haves) and discretionary (the extras). Put debt reduction and savings at the top of your nondiscretionary expense list.

â€” Track your spending for 30 days, comparing your projected expenses with what you actually spend.

With this detailed spending picture, it will be easier to find ways to cut back. Start by focusing on discretionary items such as eating out and entertainment. Try negotiating cable and phone costs or your credit card rates. These small economies can add up quickly.

3. Get Out of Debt. Non-deductible consumer debt such as credit card balances can really hinder your ability to save. Try to eliminate any credit card balances as quickly as you can. As a first step, you might look into consolidating balances on cards and other loans into a lower-cost, potentially tax-deductible form of debt such as a home equity line of credit.

4. Keep Your Emergency Fund Alive And Well. Generally speaking, it's good to have three months' expenses handy in case of emergency. Today it might be wise to raise that amount. If you lose your job, you don't want to have to dip into your retirement accounts to keep going. Because of taxes and penalties, withdrawing money early from a retirement account is expensive. Having an emergency fund makes sense not only to cover the unexpected, but also to help preserve your hard-earned retirement savings.

5. Save, Save, Save. There's no way around it â€” to enjoy any kind of retirement, you need to save as much as you can. Here are some ideas:

â€” Keep contributing to your 401(k) at least up to the company match. If you're 50 or older, you can make a catch-up contribution ($5,500 in 2009).

â€” If you don't have a 401(k) or similar plan, contribute to a traditional or Roth IRA, and make catch-up contributions if you're eligible.

â€” When you get a raise, save it in a personal taxable account or increase the percentage you put in your 401(k).

â€” Put all or part of an annual bonus toward your retirement.

â€” Invest your tax refund in your IRA.

Even in volatile times, retirement accounts offer the benefit of tax-deferred compounding. This gives you greater growth potential in the long run. If you're uncomfortable in the stock market, put new money into more conservative vehicles such as CDs or a savings account.

6. Rethink Your Retirement Options. Now's the time to think creatively about the way you might retire. For instance, you could:

â€” Spend less in retirement. Ideally, you should plan for as much income in retirement as you have now, but you might get by on less if you've paid off your mortgage and eliminated debt.

â€” Postpone retirement. You'll have more time to build your savings. You can also increase your potential Social Security benefit by waiting to receive payments (up to age 70).

â€” Work part-time. This could mean extra income as well as a way to keep active and involved.

â€” Tap into your home equity. If you own your home and you're 62 or older, a reverse mortgage may be an option (although watch out for fees and other requirements). Or downsize, and add the difference to your retirement nest egg.

My fundamental advice is to keep doing the right things in both good times and bad. That means making a genuine commitment to spending less and saving more â€” and sticking to it whatever it takes. Today's uncertain economy might make it more difficult to achieve your retirement goals, but the good news is that the things you can do right now to achieve them have more to do with your own prudent management than the current economy. So be positive, and stay focused on the things you can control. You'll feel more comfortable about today â€” and still be able to contemplate a relatively comfortable tomorrow.

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