Saving for the Future During a Recession

During the current recession, many have postponed saving indefinitely. However, life goes on and saving for the future is more important than ever. These ideas will help you to continue saving, remain focused on your goals, and avoid the mistakes of the past:

1. Evaluate your goals and adjust your savings
2. Optimize your funding mechanisms
3. Work with a qualified financial advisor
4. Review your priorities
5. Reduce discretionary spending

It's possible that making adjustments to your goals may help to moderate your monthly saving requirement if necessary. Consider extending certain goals as illustrated in the following example.

Goal	**Monthly Savings Required**				
	Earning 1%	**Earning 4%**	**Earning 6%**	**Earning 7%**	**Earning 8%**
Initial: Save $500,000 in 20 years	$1,882.80	$1,363.23	$1,082.16	$959.83	$848.87
Extended: Save $580,000 in 25 years	$673.80	$577.25	$518.67	$491.09	$464.62
Longer Term & Higher Financial Risk →					

Using different earnings assumptions in your calculations will help you understand the tradeoffs between your saving requirement, rate of return, time commitment, and financial risk. If all your savings are in one place you may not be optimizing your money, think about using a different funding mechanism for each objective.

For example, in order to have quick access to your funds you will earn a low rate of return. CDs and savings accounts have these characteristics and are suitable for accumulating an emergency fund.

Retirement plans, college savings plans, brokerage accounts, annuities, and cash value life insurance are adequate funding mechanisms for long term objectives. These plans can provide access to a higher rate of return but you must be willing to commit your funds for a long term and be willing to assume early withdrawal penalties.

Unlike CDs and savings accounts, these mechanisms may offer multiple investment options with different rates of return and financial risks. They may also have attractive tax advantages.

Avoid making choices on your own. A good financial advisor can help you select suitable funding mechanisms for your specific situation and will review your savings plan periodically to make sure it is always updated.

Before working with an advisor, ask the following questions: *Do you do this full time? What is your experience? Do you represent one company or are you independent? Besides your licenses, do you have professional credentials to provide evidence of your knowledge? Do you perform periodic reviews for your clients?* Don't risk your financial well being just to please a relative or friend who may not be properly qualified.

You may not be able to continue saving for all of your goals. Contemplate prioritizing your goals and continue saving for the most important one. You can always continue with the rest once you cash flow improves.

In addition to prioritizing your goals, you should review your discretionary spending in order to find ways to eliminate expenses and avoid delaying your goals. Visit our Facebook page for ideas about how to cut expenses. Cutting back on things such as eating out may actually turn out to be a blessing in disguise by giving you more time with your loved ones and a healthier lifestyle. On the other hand, the cost of postponing savings could prove devastating for your future.

Any reduction in your discretionary expenses can make a significant impact in your ability to save for the future. According to the latest survey conducted by the Employee Benefit Research Institute, in 2010 “more than half of U.S. workers (54%) reported that the total value of their household’s savings, excluding their primary home and defined benefit plans, was less than $25,000”.

Living below your means and saving as much as you can, will pay off in the long run. Don’t be discouraged by what happens around you and remember the old Chinese proverb, “Failure is not falling down but refusing to get back up”.