



## WYOMING RETIREMENT SYSTEM

# Evaluating your financial readiness for retirement

Planning for retirement can be exciting as you think of how you want to spend your time and savings during your golden years. However, retirement comes with many financial decisions—which are often complex, consequential, and involve considerable uncertainty—relating to how long your savings will last and how much medical costs might be. Having a plan that takes a holistic approach to your financial situation will help you prepare for uncertainties and achieve greater financial security in retirement.

This worksheet is composed of a set of questions to help you assess your financial situation. The purpose of these questions is to help guide you in making informed decisions that are best suited to your retirement needs.

## GETTING STARTED

### Question 1: Have you created a balance sheet?

You can create a balance sheet to assess your current financial situation. You do so by listing the value of your assets and the amount of liabilities (i.e., debt) that you currently hold. Summing up all of your assets minus your liabilities gives you your net worth.

Questions to consider:

- Have you included all assets, such as the value of your home, valuables, investments, and savings?
- Have you included all debt, including mortgages, retirement loans, and credit card debt?

### Question 2: Do you understand your cash flow?

Your cash flow is an accounting you make of all the money that comes in (e.g., wages, tips, investment income) and goes out (e.g., debt payments, mortgage, shopping) in a given time period. A cash flow statement is commonly made monthly.

Questions to consider:

- What are your most significant expenses? These are often housing, transportation, and debt payments.
- Is your cash flow negative or positive? If you are spending more money than you are making, you have negative cash flow, and you should consider ways to reduce your expenses; for example, are you paying for subscriptions you no longer use or are you paying credit card fees that you could avoid?
- Which costs are fixed and which are variable?
- From your accounting of expenses, can you determine the minimum monthly income you need to cover living expenses?

### Question 3: If you have debt, do you know the advantages or disadvantages of that debt?

Not all debt is created equal; some debt carries a high interest rate and thus is very expensive, while other debt may have tax advantages. Credit cards are likely to have the highest interest rate, while home mortgages or student loan debt may have some tax advantages.

Questions to consider:

- What is the interest rate on different types of debt you have? Which debt has the highest rate?
- Do you know how much of your payment is going to interest?
- Do you know when your debt will be paid off? Will you carry any debt into retirement and, if so, will that debt have any tax advantages?

## RETIREMENT PLANNING

### Question 4: Do you know how much income you will need in retirement?

There is no one-size-fits-all approach when determining how much income is needed in retirement, as individuals face different financial situations. To help assess your personal financial situation, consider what you will need to maintain your current standard of living. Research shows a good target for retirement income is about 75% of your pre-retirement salary.<sup>1</sup>

Questions to consider:

- Consider how your cash flow (from question 2) may change in retirement. Which of your expenses will be lower and which might be higher?
- What is the minimum amount you will need in retirement to cover your monthly living expenses or to maintain your current standard of living?
- How long do you think that income will need to last?
- Will you need income for other expenses such as travel or medical care?

### Question 5: Do you know what your monthly income might be in retirement?

An essential part of planning for retirement is knowing how your retirement savings translates into a monthly income and how long that income will last. Once you understand your estimated monthly income, you can assess whether it will meet your retirement needs and goals.

Your estimated total monthly income should account for what you expect to receive from all sources, including personal savings (457b), pension plans, Social Security, and other investments. You can review your balance sheet (question 1) to make sure you are taking all of your assets into account.

Questions to consider:

- Will your monthly income cover your living expenses? Is your monthly income around the same amount as your current salary?
- How long will income from each source last? Will some funds run out before others?
- Can you use personal savings to supplement income from other sources?

### Question 6: Do you know when you would like to retire?

Having a plan for when to retire often goes hand in hand with knowing what your monthly income will be. The longer you work, contribute to a retirement plan, and/or delay claiming Social Security, the higher your monthly income is likely to be. However, you will want to consider how long you will be able to work.

Questions to consider:

- How will your Social Security benefits change if you retire at 62, 65, or 70?
- Will your monthly income change if you decide to work and save for a few more years?

### Question 7: Have you considered medical costs or what you might do if unexpected expenses occur?

Having savings set aside for emergencies is an essential part of a holistic retirement plan. Unexpected expenses can occur at any time, from car or home repairs to medical bills. In retirement, unexpected expenses may be higher due to increased likelihood of needing medical care.

Questions to consider:

- If an unexpected need arose, would you have an accessible source of emergency funds?
- Do you know how much medical care might cost you in retirement? Have you thought about how those costs will be covered?

Additional considerations:

**Tax situation.** Do you know what tax bracket you will be in during retirement and what your tax burden might be? Would it be beneficial to look at ways of lowering that tax burden?

**Outliving your savings.** If you think you might not be on track to live comfortably throughout retirement, have you considered what actions you might take to change that? Some of the possibilities include increasing your contribution rate, working longer, delaying Social Security benefits, or adjusting your income in retirement.

For additional information about retirement planning and your benefits, check out [retirement.state.wy.us](https://retirement.state.wy.us).

<sup>1</sup> Center for Retirement Research at Boston College, 2016. "The Social Security Claiming Guide"