

Office for Financial Success – Financial Tip of the Week  
A service of the Personal Financial Planning Department  
College of Human Environmental Sciences  
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[Recession: What, me worry?](#)

By Jeffrey Miller and Robert O. Weagley, Ph.D., CFP®

I had a conversation with an individual the other day about the current recession. During this conversation they asked an interesting question, “How does a recession really affect me?” This is an interesting question and made me think about how many people really don’t know the definition of a recession and how it will affect them. So with this financial tip, I would like to take the time to define a recession and how it affects the average person in three ways: Employment, Retirement, and Career. Your job is to take this information and use it to make choices to reduce the effect of recessions on you. You can improve your financial success with a greater understanding of the world in which we live.

Definition- A recession is a significant decline in economic activity spread across the economy that lasts more than a few months. Declines are visible in real Gross Domestic Product (GDP), real income, employment, industrial production, and wholesale-retail sales. A recession begins just after the economy reaches a peak of activity and ends as the economy reaches its lowest point, the trough. Between trough and peak, the economy is in an expansion. Expansion is the “good” state of the economy and most recessions, however “bad”, are brief. Both expansion and recession are normal to economic cycles, although they are hard to predict/prevent. (It is easy, however, to blame others for their existence.) Most recessions primarily exist in a single nation or a group of nations that are economically dependent. Unfortunately, the current recession is world-wide and, thus, more uncertainty exists. (National Bureau of Economic Research)

Employment:

The way employment and unemployment rates are affected by a recession is simple. When the economy slows down, companies sell less, leading them to produce less with fewer workers. As a result, unemployment rates increase. For example; in October 2007, the unemployment rate was 5.4% with 8.9 million Americans unemployed. A year later, October 2008, the unemployment rate was 6.5% with 10.1 million Americans unemployed. This means that 1.2 million more Americans were looking for work last October than one year earlier. So, how does a recession affect you? One answer is simple; you may lose your job.

When people lose their jobs, State and Federal governments lose tax revenues and the effect of greater unemployment expands to be shared by others. Unabated, unemployment creates a downward spiral in the economy until faith in the economy is restored, productivity increases lead to income gains, and expansion begins anew.

Retirement:

When a recession hits, try not to retire. Ask someone 55, or older, how much they have lost in assets over the past few months. Most will probably not answer you but, if they do, it will be somewhere between 30% and 40% of their retirement investments. When people plan for retirement most have an idea of the standard of living they would like to maintain in retirement. So, if we assume they had a plan that was fully implemented and on target, that plan is now 30% to 40% below the target. Retirement goals are directly tied to markets. When a recession hits and stock and asset prices fall, individuals' retirement incomes are forced to decrease, leading to a decrease in their level of living. Many will chose to work longer instead of accepting this reality. Doing this is a great idea for, mathematically, it reduces the years in which you will need retirement income. (Perhaps, your parents are in this situation. Talk to them about how they feel and what choices they are making as they are facing retirement.)

### Career:

If you are a college student getting ready to graduate, continue with school until graduation. Then, when you graduate, do what you can to set yourself apart from others. Employment may not be as easy for you to find, as it has been in past years. A student of mine described it as trying to eat with 9 starving people at a table set for 5. All one can hope for is good luck and to try to not get shoved under the table. Importantly, your choices with respect to internships, grades, extracurricular activities, and references will matter more, compared to time periods when everyone is fighting for today's graduates. When you find a job, you may take a job with a lower starting salary than if you had graduated during an expanding economy and you may take longer to climb the corporate ladder. This slower income growth reduces your lifetime earnings, as well as your immediate cash flow. (Remember, some older employees will not be leaving as planned.)

Not only will it be harder to get a job, but pay raises and bonus are likely to be smaller and you are more likely to change jobs in search of better pay or benefits. According to the National Bureau of Economic Research, it can take 10 years or more to rebound from the losses incurred from a "recession job" with a lower starting salary.

Forewarned is forearmed. You cannot control the recession. You can only control how the recession controls you. The financial tip this week is to ask you to understand what choices you can make to reduce the recession's effect on you. Financial Success is as much about attitudes and understanding as it is about money.

- Robert O. Weagley, Ph.D., CFP(r)

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