

Using Financial Modeling To Find Out If You Should Work Another Year

If you've ever worked with a financial advisor, you may be familiar with financial modeling. Financial modeling is used during the financial planning process to help you "play out" various potential scenarios within your life. For example, you can model what may happen if you pay off your mortgage early, or if you put more money into a child's college fund. You can model what would happen if you purchase a second home, or if you saved double what you currently are for retirement.

What Would Happen If You Work One More Year?

One of the most interesting uses of financial modeling is to run through the scenario of working one more year. We're all curious about what happens when we retire, and it's an interesting exercise to see what happens if we delay that retirement by 12 months. As you may expect, you generally have more money to play around with in the model – but what you may not expect are the reasons why.

You're Saving More

Obviously, if you are delaying retirement by one year, you're using that extra year to sock away more money toward said retirement. You're generally also at the peak of your earning potential, so the money that you're saving is very likely at the maximum (and not as it would have been at the very beginning of your career). Most people also find themselves with fewer expenses as they reach their retirement age, as their home may be paid off, their children may have left the house, etc. These factors all add up to a significant amount of potential savings that you could add to those retirement accounts in that last year of added work.

You Spend Less

When you delay retirement by a year, you spend those retirement funds less (by a year). If your life expectancy is to the age of 85, and you planned to retire at 65, you'd have twenty years of spending. However, if you delayed your retirement by a year, then you'd only have nineteen years of spending instead. Keeping in mind, that you'd have one less year of retirement – so it's all about weighing the pros and cons of what is best for your lifestyle.

Compounding Interest Works Longer For You

This is something that people often forget about, but when you're saving more money and not spending it down as quickly, compounding interest has more time to work in your benefit. That extra year where you're working and not touching your retirement is another year where compounding interest may be working in your favor.

Use Financial Modeling To Test Scenarios For Your Life

The beauty of financial modeling is that you can potentially test out various scenarios for your life, so that you can weigh the benefits and risks for yourself. While spending another year working may be financially lucrative for you, you might be very comfortable without that extra year of working and prioritize the time off instead. It's all about having the knowledge to make the right choice for you and your life.

The article was prepared by: [Forbes.com](https://www.forbes.com)

April 11, 2024

Andrew Rosen-Contributor