Ensuring a Comfortable Retirement

You got your first job! Congratulations! Is it too early to start to plan for Retirement?

Let's join John as he meets a friend who graduated from college a couple of years ahead of him, Laura, who started her career as a financial advisor.

"Thanks, Laura. It was nice of you to reach out. I understand you decided to specialize in retirement planning."

"I love my job. Who wouldn't enjoy helping people plan for their retirement?"

"Sounds great but have a few years before I can begin to plan."

"Au contraire, buddy! Now that you landed your first job, now is the best time to start to plan."

Laura is right. Your money needs to grow as you age. It may seem overwhelming to start once you land your first job but Laura lays out some very basic facts for John to consider. Starting to save requires a degree of discipline so let's see how she gets John to start down the right path.

"Let me offer you some incentive. Saving even small amounts pays off in several ways. Time is a crucial factor in growing your money. Naturally, the earlier you start, the better. You have a silent helper, too."

"A 'silent helper? What's that?'

"Interest on savings and investments! Over time, there's that word 'time' again, the re-investment of interest, dividends, and capital gains can grow your money while you are busy earning your paychecks. The earlier you begin, the longer the time period, the more likely you will be able to see a more secure future retirement. In one of my training classes, they showed us an article. David Bach is a self-made millionaire but the thing that impressed me is the chart he used. It illustrated one person who started to invest for 8 years: $2,000 annually from 19-27. Then, $0. The other person started to invest $2,000 for 39 years from 27-65. All things being equal, the one who started earlier wound up with $200,00 more for his retirement. Another silent helper may be an employer 'match' for saving in a company program, such as a 401K. That's something to investigate."

"But Laura, what if I don't have that much money to invest? Actually, I'm not sure how to figure out just how much money I have for investing."

This question is often the reason people don't start to save when they get their first job. But Laura knows that the flip side of saving for retirement requires establishing a budget. There are lots of different ways to budget but it is essential to get into a habit of budgeting, especially after landing your first job. If you don't understand the balance of money coming in and money going out, savings for retirement, an emergency fund, fun trips, etc. is far more challenging.

“John, let me offer you some simple things to consider. You will decide which manner of budgeting suits your personal style. You can use an online app. That way keeping track of income and spending becomes efficient. There are several ways you can approach it. You can create specific expenses, such as rent, car payments, food, etc. Or you can create categories, such as home, gifts, phone, entertainment, internet, etc. Or, I can help you distinguish between ‘must haves’ and ‘nice to haves.’ Then we create percentage groupings, such as 60% for ‘must pay’/ 20% for saving & investments/ 20% for ‘wants. We can tailor it to you.”

Laura has John off to a good start. According to the Society of Actuaries.

- Create a spending plan: Track your expenses and use this information to create a plan for spending money. Your plan should account for monthly and nonmonthly expenses.
- Build an emergency fund: Deposit funds automatically into a savings account until you have at least 3-6 months of expenses saved.
- Pay off debts: Prioritize paying off high-interest debt (generally debt with interest rates greater than 4-6%) first.
- Save for retirement: Contribute as much as you can afford to a workplace retirement plan, IRA, or HSA. Save at least enough to get the full company match, if available.
- Invest for the long haul: Take advantage of your time horizon by investing more of your savings in long term instruments (e.g., stocks, bonds, real estate).

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