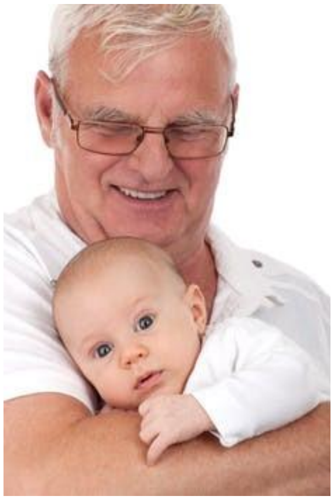
Roadblocks to Retirement

If you ask enough seniors what they regret about their finances before retirement, you will get hundreds of different answers. Wells Fargo Asset Management did just that in 2015. They got a wide variety of answers but there was one answer that stood out. It was the leading regret by an overwhelming margin. There also was an inescapable conclusion to the entire survey that was and still is very concerning.



The most common answer: 68% of workers over the age of 40 regret not starting their retirement savings sooner.

The concerning conclusion: people are either unable or unwilling to change their behavior to make a better retirement possible.

Each of these, and the many details of the survey, deserve a closer look by every person hoping to someday retire.

Not Saving Early

The incredible blessing of compound interest when you are saving and investing (and its curse when you are borrowing) is the fact that money multiplies with amazing speed over time. For a specific example, see 8 Financial Moves for Millennials in our website articles for Young Adults. The difference is staggering. Starting early means you can invest less to make a lot more. Try it yourself by going to the online calculator linked here.

Why wait? The explanations (aka excuses) are always the same, paying loans or credit cards, supporting the family, saving for a home, saving for education, paying health care debts, wanting to travel, wanting to have fun now, wanting things given up because of school, wanting things given up because of children, etc. Some of these are not unreasonable, but they all ignore the inevitable consequence of delaying savings.

IRAs, Roth IRAs, 401(k)s 403(b)s and other tax-favored investment devices allowed by law are the best way to leverage your youth if you are young or the years you have left in the workforce if you are older. The compounding of investment income is your best chance to get ahead financially.

But that is only part of the story. You can stop being unwise and start making better choices. Can't you? Unfortunately, as the Wells Fargo survey shows, many can't change.

Not Willing to Change

Everyone makes mistakes, but most people will change to avoid making the same mistake over and over. Or will they? The Wells Fargo survey showed that more than one third of respondents said they could not pay their bills and save for retirement at the same time. When your outgo equals or exceeds you income, you only have two solutions; earn more or spend less. But 62% of people find saving money to be harder than expected, and many find it impossible. Even more incredible is that 49% of respondents above the age of 60 were counting on earning more in the future to be able to start saving!

That is a bad plan, especially at that age. And they were aware of it because only half of the respondents above the age of 60 expected to have enough money to retire comfortably, 55% expected their standard of living to decrease, 34% thought they would need to win the lottery to ever retire, and one third said they would never be able to retire!

Time Really Is On Your Side (Especially If You Start Early Enough)

When you put money into a 401(k). a 403(b) or IRA, you are not just benefiting from that principal contribution (and you benefit even more if there is a matching contribution by your employer); you are also benefiting from compounded investment growth over time. The more time you have to let your investments grow, the greater your earnings are likely to be. It works best if you start early but it is better late than never. The Wells Fargo survey showed that Gen Xers are doing better than Boomers, with an average age of starting to save at 31 for GenX vs. 37 for Boomers. But even then, starting at 31 is later than the best choice.

The following table shows in 5 year intervals how much money you might be able to build if you begin saving $250 each month at age 20:

If You Start Saving $250 a Month at Age 20	Your Savings Balance at Age 65 Will Be... (Assumes an 8% Average Annual Return)
20	$0
25	$18,491.68
30	$46,041.42
35	$87,086.29
40	$148,236.80
45	$239,341.64
50	$375,073.79
55	$577,293.76
60	$878.570.30
65	$1,327,425.87

This Table and Calculations by The Idlewild Foundation.

There are assumptions that lie at the heart of this table of figures. First, this assumes a steady rate of return of 8% compounded monthly. That is not unreasonable over a lengthy period of time if you are wisely invested in stocks in a fairly bullish market. While there is certainly more risk in being in the stock market than in bonds or CDs or similar conservative investments, stocks have delivered a significantly higher return than most investments over the long run. If you start saving and investing when you are young, you have time to weather the inevitable lows and valleys that time will inevitably deliver.

Additionally, there is an assumption that your contributions remain steady at $250 per month over years of time. That is neither realistic nor desirable. In reality, as you earn more money, you should increase investments. It is likely that before ten or fifteen years have passed, your contributions should be at or above $300 per month, making the final investment total significantly higher.

Finally, we have assumed that no money is ever taken out by you, we have ignored taxes on gain, and we have assumed that you save from age 20 right up until you are 65.

Regardless whether all of these assumptions are realistic, this is done to make it clear that the sooner you start investing, the more you can and will save. Now, take a look at the difference between starting at 20 and starting at 30. You invest $30,000 less and you end up with just over $750,000 less at the end.

If You Start Saving $250 a Month at Age 30	Your Savings Balance at Age 65 Will Be... (Assumes an 8% Average Annual Return)
30	$0
35	$18,491.68
40	$46,041.42
45	$87,086.29
50	$148,236.80
55	$239,341.64
60	$375,073.79
65	$577,293.76

This Table and Calculations by The Idlewild Foundation.

Even if you start at age 25 the loss in final investment earnings is still substantial, 1,327,425.87 vs. $878.570.30, almost $450,000 less. To adapt the table to when you may start investing for retirement, simply add (or subtract) the number of years from each line on the left column.

The moral of this story? Start early!

Spend Less, Save More

However, not everyone can afford to save and invest with $250 a month, especially at age 20. However, it is not as impossible as you might think at first glance. Before you rule it out, read the ideas in the six sections below. These ideas may help:

1. Take a Financial Peace University Course. Learn how to budget, save, control your cash flow and discipline yourself to be a good steward of what God has allowed you to have.
2. In Financial Peace University you will learn how to create a real and meaningful budget and a monthly cash flow plan. Stick to that budget. Without a good budget, you will have difficulty controlling spending and you will all too easily lose sight of your financial objectives. A budget creates incentive to find ways to save. And next is a point every wise financial adviser will tell you.
3. Live not just within but below your means. The margin of living below your means - not spending all that you earn - is a universal bit of advice.
4. Give generously to God, who has given generously to you! The law of reaping and sowing is Biblical and proven. You will reap sparingly if you give sparingly and you will reap well if you sow well. 2 Corinthians 9:6, Galatians 6:7.

5. Read our article It's Time to Start Saving in our website section for Young Adults.
6. Read our article Ideas for Living Better Through Stewardship in our website section for Young Adults. That article has ideas for eliminating common spending mistakes that can easily save over $3,000 per year, the goal amount!
7. Have an accountability partner to help you stay focused on the ultimate goal, financial security leading to financial peace, leading to retirement.

Although you may be well past 20 or even 30, start now. Waiting will only make your financial future more challenging and eliminate any opportunity you may have to build up the kind of reserves you should have to enjoy retirement.