Why Retirement Is a Young Person's Issue

Why should someone in their 20s worry about retirement? Retirement is probably 40 years away, twice as long as you have been alive. There is plenty of time to save for the golden years.

That is the thought process of most young adults. Plus it is more fun hitting happy hour after work on Friday than investing in a mutual fund or stock that will probably fall in value anyway.

I get it. Does not mean I agree, but I understand how most people think.

However, I still urge young investors to save a little upon starting out in the work world.

U.S. News & World Report outlines, "7 Ways Retirement Is a Young Person's Issue". Well worth a read if you want added incentive to start saving for retirement today. As per usual, a few added thoughts from my side.

Social Security Reform

There will be substantial changes in social security payouts in the near future.

Yes, politicians keep kicking the can down the road as implementing change will be political suicide. But at some point, changes must be made. Deferring eligibility until one's 70s, reduced payouts, thresholds based on wealth or income, etc. Whatever the actual mechanics, the bottom line will be less money in your pockets. Governments just do not have the money to continue financing retirees at current levels.

And this problem exists pretty much worldwide.

So be prepared for significantly less in government retirement pensions (but expect to continue to contributing to the pot!).

Debt

I think this is a bit of a catch-22 issue.

Yes, it is a legitimate concern that impacts a growing number of retirees. And it will likely affect many young adults reading this post.

But the need for personal debt in retirement is probably caused by the fact that the person did not start saving until relatively late in life. If you start saving now, you will not require external debt to live as a retiree.

Longevity and Inequality

With each passing decade, life expectancy in developed countries seems to increase.

Perhaps you can calculate annual savings, return, and expenditures up to and through retirement. But what happens if you expect to die at age 75 and find yourself living on into your 90s? Better to accumulate more than you require – to cover for unexpected costs, longer life, etc. – than to face a shortfall.

Also, as the old saying goes, make hay while the sun shines. You never know what will happen down the road. You get ill, lose your job, lose your spouse, etc. All these can impact your ability to save. So start as soon as possible and give yourself a buffer against unanticipated future shocks.

Given all the unforeseen events that can arise over the next 40 years, I suggest that you can never save enough.

Bonus Thoughts!

Not directly mentioned in the article, but worth considering:

Detroit

Or a bunch of other cities, states, and countries.

They are bankrupt. Or will be bankrupt. That means existing contracts will not be honoured. If you work for the bankrupt (or future bankrupt) entity, you may not receive your contractual retirement benefits.

The same concern should apply even if you work for a private company. If you are part of a defined benefit plan, you want to be sure the plan is fully funded. Underfunded plans run the risk of non-payment should the company go insolvent. For company plans, I prefer defined contribution plans that are funded on an ongoing basis (and with a few other protections).

Compound Returns

I have written about the power of compound returns previously.

It is an extremely important concept and a huge advantage for young investors. The sooner you start to save, the higher your wealth will grow over time. So start saving, even if just a little, as soon as possible. It will be worth the sacrifice in the long run.