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.

Financial Tips for College Graduates

U.S. News offers 10 financial tips for young adults.

Actually, financial advice for anyone starting out in the work world. Or even for those who have been working for awhile and now want to begin investing.

Good advice. A few comments from my side.

I shan't cover all the points, but do want to make a few observations.

Start Saving From Day One

Good investors save, invest, and grow their funds.

Enroll immediately in a plan where money is automatically deducted from your pay each period. Company plan, personal tax-deferred investment account, etc.

You did not have any income yesterday. Missing $50 or $100 per pay period will not be felt. But if you wait and get used to the extra cash in your chequing account, it will be more difficult to lose it later on.

Invest for the Long Term

How you invest should, in large part, reflect your phase in the life cycle.

Presumably you are young. With 40 plus years until you need to access your retirement funds. Starting out in the world, you hopefully are entering an accumulation stage of life.

With a long time horizon, you can handle some volatility in your portfolio. That means you should consider relatively riskier assets when you are young.

No, not betting double zero on the casino roulette wheel. Nor even putting half your money in corn futures. This is speculation. I am talking investment risk. Based on your personal risk tolerance and individual circumstances. For a typical young investor, that often means a well-diversified portfolio with an emphasis on equities.

Do not shun risk at a young age. Risk can be an asset for young investors. Just make sure it is well considered, prudent investment risk.

As your time horizon decreases and your personal circumstances change, then you can slowly move to a lesser risk portfolio.

Maintain an Emergency Reserve

Last in, First out (LIFO). An inventory term in accounting.

But also a reality for young employees who lack seniority within a company. If things go sour, new employees often suffer.

Start investing on day one. But also start accumulating an emergency reserve in case you suffer a loss of employment income. The amount should be based on various factors. A good benchmark is often 3 to 6 months of living expenses.

Don’t Live Like a King

Or queen. Or my nephew.

Yes, it is nice to finally get out of your parents’ basement and begin earning real money. But live within, or even below, your means.

Try to keep life frugal and invest any spare cash. Take advantage of your youth and the power of compound returns. Yes, you may enjoy that week in the Dominican Republic. But investing the money and watching its compound growth over time will allow for many more weeks vacation down the road.

Financial Advice for Younger Adults

The New York Times offers some “Financial Tips for Younger People”.

Not bad financial advice for young investors. Worth a read.

Key points offered:

Those Under 40 Are Not Saving Money

> *With stagnant wages, a tough job market and heavy student debt, American under about age 40 have accrued less wealth than their parents did at the same age, even as the average wealth of Americans has doubled over the last quarter-century, according to a new study by the Urban Institute.*

You can substitute “American” for most nationalities.

With government deficits and heavy debt levels, ever increasing tax rates, and high unemployment, the ability for individuals to save and create real wealth will get even tougher. That is why it is crucial to start saving as soon as possible. The earlier you begin to save, the less actual money you have to set aside (thanks to the power of compound returns!).

Develop a Saving Habit Today

Individuals, especially younger ones, must see savings as a habit. They:

> *… need to start saving — even if it’s as little as $10 a month, if money is tight — to get in the habit. With the uncertainty about the future of Social Security benefits, he said, “There’s a high likelihood they’re going to be*

> *personally accountable for their own retirements."*

Do Not Overspend on Homes or Cars

Younger adults should:

> *not to aim to buy a big, expensive house right away, because they are likely to move around before settling down. Ditto for fancy cars.*

I would differentiate between homes and vehicles.

Not buying too big a house now may save significantly on mortgage interest. Buy something reasonable, then pay down any debt as quickly as possible. In the early years, interest takes up the vast majority of mortgage payments. Take steps to reduce the principle and the overall cost of the house (purchase price plus mortgage interest) will be much lower.

One may make an argument to invest in a large home now, given current popped housing bubbles in many locations. Over the long run, real estate has been a good investment. If you can find a large home, at a reduced price, fine. But remember that your true cost will include interest on any assumed debt. So be cautious about overextending.

Vehicles are different as they are depreciating assets. We are not talking classic collectible cars, but vehicles you use for day to day use. You buy a new car and the second you drive off the lot it is worth substantially less. Vehicles are not investments.

A good rule of thumb is to invest in appreciating assets and minimize purchases of depreciating assets.

Spend money on items that will retain their value or increase in price. Spend as little as possible on wasting assets.

College is an Investment

Another good piece of advice is:

> *taking only as much college debt as they can reasonably expect as their first year's salary in their chosen field.*

I am not sure I agree with the ratio, but the point is valid.

Education, job training, etc., is an investment to help increase earnings during your lifetime. You must always consider the return on that investment before spending your money or taking on high debt levels.

A few other pieces of advice are offered in the article. So please give it a read.

Reduce Tax Withholdings Today

Most countries tax employment income at the source when earned.

If you earn $120,000 annually and your effective tax rate is 35%, then each month your employer withholds (and hopefully remits on your behalf) roughly $3500 from your net pay-cheque. At the end of the year, you file your tax return and probably get a refund for overpayments during the year.

Yes, a little more complicated than that. But for young people with only employment income, this is typical. Various deductions and tax credits reduce actual tax payable and allow for a refund.

Tax Refunds Are Great (Not Really)

Now refunds always sound great. Nice to get a cheque from the government. But the reality is that what you owed did not change. Only that you gave the government an interest free loan during the course of the year. And only after you file a return and wait a suitable period, will the government return your money back to you (with no interest for you).

Contribute Tax-Deductible Savings Early

Recently I was chatting with a young fellow about his newly created registered retirement savings plan (RRSP). One item we discussed was that he should make his contributions as early in the year as was possible to maximize the compounding impact over time.

A wise tip for anyone.

Get Credit Immediately for Your Tax-Deductible Items

I mentioned to him that if he shows his Human Resources or Payroll Manager that he has already made his tax-deductible contribution for the year, his employer should be able to adjust his withholdings to reflect the deduction. That means less tax withheld, more money in his bank account each pay period. Instead of giving the government an interest-free loan, he can put the money to work on his own behalf. Over time, the return adds up.

I read a Financial Post article that reminded me of my earlier conversation. "How to get your tax refund throughout the year" looks at ways to reduce periodic withholdings, allowing you to get your money back sooner.

Obviously, rules differ between tax jurisdictions. You will need to explore available options where you live and/or reside for tax purposes. For Canadian tax residents, the article recommends:

> *An easy way to avoid or at least try to minimize your tax refund for 2013 is to complete CRA Form T1213, Request to Reduce Tax Deductions at Source in which you list various*

> *deductions that you plan to take when you file your 2013 return, such as **RRSP contributions (other than those made through payroll deduction), support payments or childcare expenses**. (emphasis added – jmw)*
>
> *Send it to the CRA and, if approved, you will receive an authorization letter which you can hand over to your employer's payroll department authorizing them to reduce the amount of tax withheld at source from your paycheque.*

Very good advice.

If you can get money back in your pocket sooner, always take advantage of the opportunity.

Public Pension Funding Shortfalls

I stated in "Will You Need to Work Until 70?" that ever increasing levels of government debt may cause problems for those expecting pension benefits from public sector employment.

I read an article today that reinforces my view.

U.S. Public Pensions are Inadequately Funded

According to Reuters, state pension plans are inadequately funded.

> *A survey by Loop Capital Markets found only 58 of 149 state-level public pension plans it reviewed were funded at 80 percent or more, a level that is considered healthy.*

61% of the plans reviewed are not in good health. Note that good health is only considered 80% fully funded. I guess if I amputate an arm, I am still healthy as I have 3 of 4 appendages in place.

The Takeaway

Whether you work for the State of Hawaii or a private company in Switzerland, it does not matter.

You always need to monitor the health of any pension plan of which you are a member.

Never blindly assume that what you think you will receive upon retirement at some future date is what you will actually receive. If the plan is seriously underfunded, the plan sponsor gets into financial difficulty, actual plan investment returns do not meet assumptions, etc., you may not receive what you expect.

I would also review the assumptions being used in pension calculations. If the pension is assuming annual portfolio returns of 10% and it is only earning 3%, there will be a shortfall based on accumulated performance. Interesting assumptions are always integral to less than stellar pension plans.

For a pension plan with funding and assumption issues, see this biting analysis of CalPERs.

As an aside, this is a key reason I prefer fully funded defined contribution pension plans over defined benefit plans. It is better to know what is actually in your pension plan than having to rely on a promise for a future income stream that may or may not be possible.

If you do see that your employee pension plan has issues, do what you can to make management get funding back to acceptable levels. You may not have much leverage, but make your voice heard.

And, to the greatest extent possible, increase contributions to any personal retirement accounts. This may provide some protection should the employee pension face cash flow shortages and you start receiving less than you planned for.

Reduced Social Security Benefits

In “Will You Need to Work Until 70?”, I noted that you should expect reduced government benefits when you retire.

Part will be due to reduced actual payouts. Part will be due to increased retirement ages.

I believe that if you factor in current social security payouts in your retirement calculations, you will face a shortfall when you do retire.

I want to quickly highlight this point as it is crucial for a successful retirement.

OECD Agrees With Me

The Organisation for Economic Co-operation and Development (OECD) believes that raising retirement ages and expanding private pension coverage is essential.

> *Governments will need to raise retirement ages gradually to address increasing life expectancy in order to ensure that their national pension systems are both affordable and adequate, according to a new OECD report.*

“Bold action is required. Breaking down the barriers that stop older people from working beyond traditional retirement ages will be a necessity to ensure that our children and grand-children can enjoy an adequate pension at the end of their working life,” said OECD Secretary-General Angel Gurría. “Though these reforms can sometimes be unpopular and painful, at this time of tight public finances and limited scope for fiscal and monetary policy, these reforms can also serve to boost much needed growth in ageing economies.”

Change is Already Happening

The OECD news release notes that governments are already addressing this issue.

The Pensions Outlook 2012 says that increases in retirement ages are underway or planned in 28 out of the 34 OECD countries. These increases, however, are expected to keep pace with improved life expectancy only in six countries for men and in 10 countries for women.

In the OECD we are seeing a significant reduction in actual monetary payments to retirees.

The Pensions Outlook 2012 finds that reforms over the past decade have cut future public pension payouts, typically by 20 to 25 per cent. People starting work today can expect a net public pension of about half their net earnings on average in OECD countries, if they retire after a full career, at the official retirement age.

Forbes looks at a few countries and their retirement ages.

In 2007 Germany raised its retirement age from 65 to 67 and the German government is now talking about increasing retirement to age 69 for full pension payments to start. On the other hand Greek workers now retire at age 58 with 80% of *pension payments and the country's workers are currently agitating for a lower retirement age.*

My German friends just love that paragraph.

And I think those two sentences nicely summarize the situation in Europe.

The AARP and Washington Post also review countries that are increasing retirement ages.

For Canadian readers, a move from 65 to 67 is occurring. Given Canadian current life expectancy (men 77, women 82), expect 67 to shift to (say) 72 in the next decade or two.

Be Realistic When Planning

Many individuals plan for retirement based on current variables. They use existing tax rates, inflation expectations, historic asset class returns, etc. This includes factoring in current retirement ages and payout rates.

Use caution when relying on historic or current data when planning. The future can change.

This is especially true with retirement benefits. The world is already changing and the trend is clear. The age you will be able to start collecting social security retirement benefits is increasing.

When factoring in social security benefits into your retirement cash flow, be extremely conservative. Better to err on the side of caution and end up with a surplus than to suffer based on lower than expected income.

Will You Need to Work Until 70?

I continually stress that people need to save for retirement.

The sooner you start the better. And the easier it is grow wealth through compound returns. But regardless if you are 20, 30, 40, or 50, you need to begin saving now and prudently invest for your later years.

If not, you may just find yourself greeting customers as they enter your local Walmart.

You Will Have Plenty of Competition for a Walmart Job

An incentive to start seriously investing comes courtesy of the Employee Benefit Research Institute (EBRI).

> *For about one-third of working-age households (those between ages 30 and 59 in 2007), working until age 70 won't enough to provide adequate income in retirement.*
>
> *EBRI's Retirement Security Projection Model indicates that nearly 64% households aged 50–59 in 2007 would be "ready" for retirement at age 70, compared with 52% those households if they were to retire at age 65.*

So 36% of U.S. households will work until age 70 and still not have enough money saved to retire properly. And that percent falls to about 50% if you wish to retire at age 65. Scary stuff.

Do Not Count On Government

Most governments are in heavy debt. Will they have enough money to pay current levels of social security benefits to retirees? I have my doubts. I fully expect benefit payout to seniors to decrease in the future. We are seeing this already.

In fact, many governments have already gone, or may go, bankrupt. This means that if you are counting on a pension from government employment (police, fire, etc.), it may not be what you expect. Look at California and its ever increasing number of bankrupt municipalities. When these situations are restructured, will the various pension agreements (that are a huge part of the fiscal crises) survive intact?

Also, governments need to raise additional revenues to pay interest on debt and general cost overruns. Expect taxes to continue to rise, which will further erode your savings.

Consider Spain. Value Added Tax of 21% (so almost every purchase you make, you pay 21% to the government), cuts in benefits, indirect taxes on energy, etc. All these impact your life if your are a Spaniard. And someday Greece and Italy may actually implement real austerity measures.

Okay, but that is Spain (and maybe Italy and Greece). Yes, but look at where you live. There are very few places not in financial distress. It is simply a matter of degrees. The fact that no one is seriously addressing their financial problems suggests more Spains are on the way.

Do not count on the status quo when planning for your future retirement needs.

Save Early, Save Often

I understand that finding available cash to start saving may be a real challenge. But sacrificing a little today may be a lot easier than competing with all those other seniors for a spot greeting people at Walmart.

Improve your cash flow, maximize contributions to tax deferred accounts, and start seriously saving for retirement today. If you do, you may lessen the odds of asking me if I “want to supersize that” down the road.

Money Tips for Young Adults

In my post, *Money Lessons From One’s Twenties*, we saw some financial mistakes made by S.L. Bathgate while in her twenties. We also saw how these errors impacted her later life. And how she is trying to get back on course to better cash management and wealth accumulation.

Ms. Bathgate has a decent plan to strengthen her fortunes.

But if I was advising Ms. Bathgate, I have a few suggestion to improve on her stated plan.

Ms. Bathgate’s Stated Plan

From her story, Ms. Bathgate writes:

> *I’ve come up with some new goals for my thirties. I am going to contribute at least 10 percent of my salary towards my retirement. I am going to chip away at my student loan debt until it is paid off or forgiven, whichever one comes first. I am going to embrace the very simple concept that I must spend less than I earn. And I am going to be richer than I have ever been in my entire life. But you already knew that, didn’t you?*

Admirable, but could be fine tuned for improvement.

Define Your Approach and Put It In Writing

Do not simply say that you are “going to contribute”, “going to chip away”, and “going to embrace”.

Define how you actually intend to do so and create an action plan with short, medium, and long-term realistic milestones.

Put it in writing and adhere to your game plan.

A written investment plan with periodic measurables will keep you focussed on achieving your goals.

Direct Debit Your Investment Contributions

Each month your rent, utilities, cable, etc. are probably automatically deducted from your bank account. You quickly get used to your level of net disposable income and adjust your spending around what is left each month.

Do the same with your investing program. It is easier to invest if you automatically invest a fixed amount each month than if you have to go into your bank account and make a conscious decision to invest.

Many mutual funds and brokerage accounts allow for direct debits from your bank account. Also, consider other simple ways to invest, such as: Direct Stock Purchase Plans, Employee Stock Purchase Plans, Dividend Reinvestment Plans.

Utilize these investment options and you will find it easier to build wealth over time.

Pay Down Non-Deductible Debt

Debt is a negative investment. If you buy a bond, the interest you receive is income. But if you owe money to someone, the interest payments you make erode your capital.

In many situations, the interest you pay is non-deductible for tax purposes. This makes it an even more expensive item.

For example, you have $10,000 and can either pay down a loan costing 8% non-deductible interest or invest in bond paying 8% interest. And your effective tax rate is 30%.

With the loan, you pay $800 annually in interest expense. But since you pay out of after-tax cash flow, you must earn $1143 in salary to pay the interest each year. So the loan is actually costing you 11.43% on a gross basis.

With the bond, you receive $800 annually in interest income. But since you must pay tax on the proceeds, your net return is only $560, or 5.6%.

To build mental discipline for continuous, recurring investment contributions, you may decide that you would rather forego paying down debt in exchange for developing a consistent investing pattern. Yes, likely not the “best” way to do things. But if it builds the basis for a long-term investing strategy, I would not discourage you from doing so.

Minimize Your Investment Related Tax

Always look at investing in terms of after-tax returns. Often you will get a much better net return paying down debt with non-deductible interest expense, than on actual investments. Put your money where it will do the most good for you.

If your interest expense is deductible for tax purposes, then you need to factor in the tax savings. The same may be said if you are investing in a tax-deferred investment account and/or receive tax deductions for contributions made. Always run the numbers to see which options make the most sense on an after-tax basis.

I would also add that in many countries, capital gains are taxed differently from interest income. Dividends may be taxed yet another way. Again, look at your after-tax returns when assessing potential investments. Depending on where you live a 6% dividend yield may be preferable to an 8% interest payment.

Taxes can be the number one problem for those trying to accumulate long-term capital. Always take steps to minimize your tax impact.

Money Lessons From One’s Twenties

If only. If only I knew then what I know now. Or at least what I think I know now.

A concept anyone over the age of thirty understands very well. Okay, maybe forty.

“If only I had this wealth management advice when I was twenty, rather than learning painful lessons for the next decade or two.”

That is the tale of one woman in today’s discussion.

Learning About Money In One’s Twenties

S.L. Bathgate seems like the typical young adult. Someone I can relate to.

> *Looking back on my twenties, I realized that I spent my money mainly because I wanted to feel richer than I actually was. This single desire was probably the most fundamental problem I had with money during my twenties, and admittedly, it is one that I still struggle with today.*
>
> *I got my first office job in my early twenties, complete with a paltry, yet steady, salary. Suddenly, I was hungry to experience the full spectrum that life had to offer, and all too eager to ignore the wide disparity between my means and aspirations. It was still a time when everything in the world seemed novel, and by virtue of its novelty, was mandatory to experience. Bottomless mimosa brunches? Buying that $200 used guitar on a whim? Impromptu road trips? Yes, yes and yes.*

> *I knew I shouldn't have been spending my money so liberally, but for the first time, it felt like a relief to just have the nice things that always seemed missing from my life. Somehow, it seemed perfectly fine to drop at least $200 a month on sushi dinners, to purchase designer handbags, to drink endless rounds of American craft beers, and to have and to hold each new Apple product in my hands.*

I do not know of too many people who did not follow this path. Present company included.

I remember when I first moved to the Cayman Islands. An acquaintance there said that you will live your first year like a rock star. And he was right, although I never could get the long, flowing hair looking quite right.

Many of my fellow ex-pats lived a few more years like rock stars. Making great money, living beach-front, out for dinner every night, and travelling the world on vacation.

Not the way to live if you want to accumulate wealth and retire comfortably. But after living like a pauper through school, once you start earning a little cash you want to enjoy it and make up for lost time. I know I did.

At Thirty, The Party Stops

After enjoying her twenties, Ms. Bathgate reaches thirty to find her financial situation less than stellar.

> *It was clear that I had refused to live within my means, and I needed to do something to change my situation. On one too many occasions, I had ransacked my short-lived savings to pay off mounting credit card bills. I still had an array of credit cards I had accumulated during my early twenties while playing the balance transfer game. And my credit score had taken a sizeable hit.*

Fortunately, Ms. Bathgate came to her senses and sorted out her financial problems. Sadly, many individuals do not correct their errors at 30, nor even 40 or 50. And with each passing month, rectifying the problem becomes harder and harder.

Why?

The Power of Compound Returns

The longer one delays saving, the greater the capital required to catch up over time.

Consider a previous lesson on compound returns. Nicole starts investing $300 per month at age 25 and stops investing at age 40. Her total capital invested over 15 years is only $54,000.

Her twin brother Matt enjoyed his 20s and 30s a little too much. Matt only begins to save at age 40. To catch Nicole's wealth level at age 70, Matt must invest $700 per month from age 40 to age 70. His total capital invested over 30 years is $252,000.

Matt needs to come up with almost five times the disposable income to end up with the same wealth as Nicole when both reach age 70. Not an easy proposition.

The power of compound returns is a big incentive to start saving early in life.

Her Plan Going Forward

Ms. Bathgate is planning on changing her (long-term) fortunes.

> *I've come up with some new goals for my thirties. I am going to contribute at least 10 percent of my salary towards my retirement. I am going to chip away at my student loan debt until it is paid off or forgiven, whichever one comes first. I am going to embrace the very simple concept that I must spend less than I earn.*

A decent strategy. As is said, the first step is acknowledging you have a problem. Many do not.

I wish her the best of luck.

But f I was advising Ms. Bathgate, I think she could have improved her stated plan with a few simple amendments.

We will look at my suggestions next time.

Should Students File Annual Tax Returns?

You must file a return if you owe the government taxes.

But even if you have no tax payable, it is usually a good idea to file a tax return.

This Financial Post article outlines benefits for Canadian students in filing annual returns.

I fully agree with the advantages noted and recommend that Canadian students read the story. It is also worth a review for non-Canadian students as some of the advice may also be applicable.

I understand that the Canadian Federation of Students has an agreement with UFile.ca, a Canadian on-line tax preparer. Under the arrangement, Canadian post-secondary students should be able to file their returns for free electronically. Please check this link for more information.

I also believe that many campuses offer tax clinics to assist students with their annual filings. So if you need some help, check around your local institution.

As I have written elsewhere, every dollar you can retain for yourself may be invested for the future. Or spent to service the BMW you bought. Take advantage of every legal way to minimize the money you pay in taxes each year or to maximize the refund you are entitled to receive.

I would note that there is a good reason as to why the government is friendly to student filers (as opposed to later in life). And that is to get you into the system. Once there you will be tracked for life. For any anarchists reading this, be forewarned.

For non-Canadian students, sorry, my tax expertise is limited.

However, if you have been employed during the year, it is likely that taxes have been withheld from your earnings. Given that most students do not earn enough annually so as to be required to pay any taxes, filing a return should allow you a refund.

Additionally, many countries offer registered retirement plans and refundable tax credits for low income filers. So please take a look at your country specific options (a quick google search using " Country X, student, tax filing, advantages") should provide some relevant advice.

You can also review the tax authority website for your country. There should be plenty of student-specific information listed there.

For American students, I would refer you to this article from the Daily Trojan, as well as this IRS website sub-section dealing with students.

Good luck getting a nice refund.