

Why Do People Put Off Saving for Retirement?

A lack of money is but one answer.

Provided by Bill Mann, AIF®

Common wisdom says that you should start saving for retirement as soon as you can. Why do some people wait decades to begin?

Nearly everyone can save something. Even small cash savings may be the start of something big if they are invested wisely.

Sometimes, the immediate wins out over the distant. To young adults, retirement can seem so far away. Instead of directing X dollars a month toward some far-off financial objective, why not use it for something here and now, like a payment on a student loan or a car? This is indeed practical, and it may be necessary. Even so, paying yourself first should be as much of a priority as paying today's bills or paying your creditors.

Some workers fail to enroll in retirement plans because they anticipate leaving. They start a job with an assumption that it may only be short term, so they avoid signing up, even though human resources encourages them. Time passes. Six months turn into six years. Still, they are unenrolled. (Speaking of short-term or transitory work, many people in the gig economy never get such encouragement; they have no access to a workplace retirement plan at all.)

Other young adults feel they have too little to start saving or investing. Maybe when they are further along in their careers, the time will be right – but not now. Currently, they cannot contribute big monthly or quarterly amounts to retirement accounts, so what is the point of starting today?

The point can be expressed in two words: compound interest. Even small retirement account contributions have potential to snowball into much larger sums with time. Suppose a 25-year-old puts just \$100 in a retirement plan earning 8% a year. Suppose they keep doing that every month for 35 years. How much money is in the account at age 60? $\$100 \times 12 \times 35$, or \$42,000? No, \$217,114, thanks to annual compounded growth. As their salary grows, the monthly contributions can increase, thereby positioning the account to grow even larger. Another important thing to remember is that the longer a sum has been left to compound, the greater the annual compounding becomes. The takeaway here: get an early start.¹

Any retirement saver should strive to get an employer match. Some companies will match a percentage of a worker's retirement plan contribution once it exceeds a certain level. This is literally free money. Who would turn down free money?

Just how many Americans are not yet saving for retirement? Earlier this year, an Edward Jones survey put the figure at 51%. If you are reading this, you are likely in the other 49% and have been for some time. Keep up the good work.²

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Citations.

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