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Investing in your 20’s for a retirement in your 60’s

It is hard to believe that in fifty years I will be retirement age. I could be married with children, even grandchildren. I could stop working, which sounds great until I realize that if I am not working then I am not receiving a paycheck. It sounds scary. Retirement planning is a confusing and time consuming process. It is essential to start investing in your 20’s for a retirement in your 60’s. The risks of not investing could lead to being dependent on family members or the government for assistance. Social Security might be unavailable or insufficient by the age of retirement. Benefits of investing at an early age will mean more time for savings to compound. It will also allow for the time to recover from a catastrophic event, such as a stock market crash. People are living longer, therefore making it necessary to have money for longer periods of time for retirement. This paper is to help people understand that investing early for retirement is necessary.

People who are relying on Social Security funds to supplement their income after retirement could discover that the funds have been depleted or reduced. Under current law, Social Security’s revenues are projected to be insufficient to pay full scheduled benefits after 2033 (Myerson,“How Social Security…”). Unless the program is overhauled millions of beneficiaries scheduled to receive or currently receiving benefits could be without this income.

Social Security's total financing shortfall is now larger than it has been at any point since the 1983 reforms, and indeed now requires legislative corrections more severe than those enacted at that time (Blahous, "A Guide to…"). Depending entirely on Social Security benefits could lead to someone being unable to provide for basic necessities, such as housing or medical care.

Social Security is not a retirement plan. Investing in a 401(k), IRA or Roth is a retirement plan. In 2011, 66 percent of singles 65 and older relied on Social Security for at least half of their income; 41 percent of singles 65 and older relied on the program for 90 percent or more (Cullnane 244). Taxpaying workers contribute financially to the Social Security Program through their wages. The Social Security program is a program that is paid in arrears, meaning that the current beneficiaries are being paid from workers of the previous generation. Blahous stated "…even with our current tax rates, benefit schedules and demographics, the system would be sustainable if individuals' tax contributions were saved to finance their own future retirements, rather than tapped to pay benefits previously promised to older generations" (Blahous, "A Guide to…"). There is a chance in the future that the beneficiaries could outpace the contributors,

There are serious issues regarding the Social Security program that need to be addressed now to allow for the necessary corrections to take place to save the program. The Trustees of the Social Security trust funds conduct annual reports on the current and projected financial status of the program. Legislative action will take a long time to accomplish resulting in a need for finding alternative ways to plan for retirement.

There are many ideas about how to fix the Social Security program, including the idea of a tax increase. By 2033, scheduled benefits could only be paid by raising tax revenues by the equivalent of an increase in the current tax rate from 12.4% to 16.5% -- an increase of nearly one-third in worker tax burdens (Blahous, “A Guide to…”). A tax increase would mean that one would be receiving less in his/her paycheck and therefore would have less to invest in retirement.

Another concern with relying on Social Security benefits is the possibility of a reduction in benefits. Monthly benefit amounts are based on the age when benefits are claimed. If a person needs to claim Social Security benefits prior to the standard retirement age of 67 (for those born after 1960), then there could be a substantial reduction in benefits. Retired workers may claim benefits when they turn 62 years old, but the longer that they wait, the higher their monthly benefit (Myerson,“How Social Security…”). This could cause the amount of income being relied upon for Social Security benefits to be less than what is needed to provide for retirement.

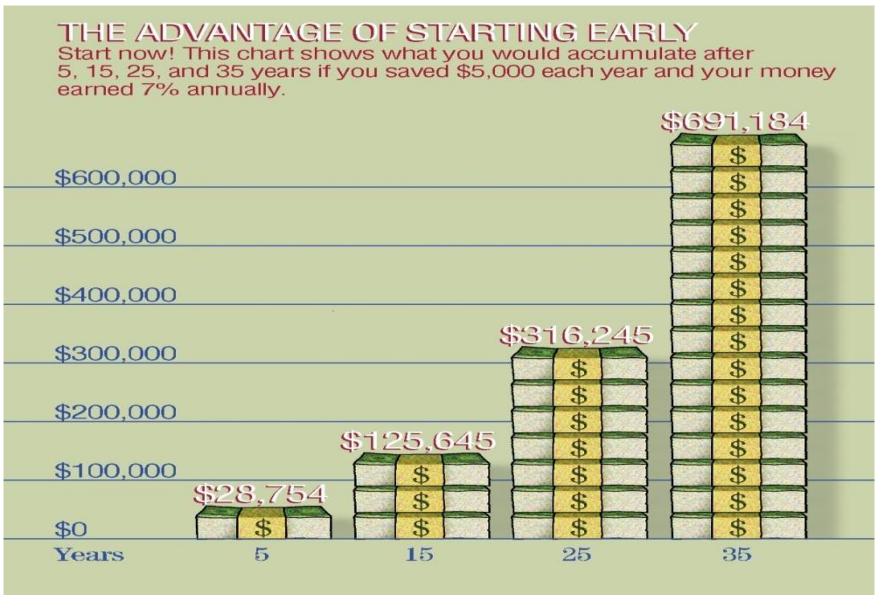
The amount of money needed for retirement is high. Retirement is expensive. Experts estimate that one will need at least 70 percent of their preretirement income – lower earners, 90 percent or more – to maintain your standard of living when you stop working ("Top 10 Ways to Prepare for Retirement"). The number of years without an income during retirement is rising. It is conceivable that you are going to be living a third of your life (the length of your retirement) with no paycheck coming in (Armstrong III and Brown 17). Investing early for retirement will give one an advantage for when one is not receiving an income from working.

People are living longer. The life expectancy rate for the year 2010 is “78.7” years of age (“Life Expectancy”). The life expectancy rate for the year 1950 was “68.20” ("Life Expectancy-United States"). There are several reasons that could be contributing factors to people living longer. A change in healthcare is one. There have been major medical advances in medicine that enable people to live longer. According to the Royal Geographic Society:

> During the twentieth century, life expectancy rose dramatically amongst the world's wealthiest populations from around 50 to over 75 years. This increase can be attributed to a number of factors including improvements in public health, nutrition and medicine. Vaccinations and antibiotics greatly reduced deaths in childhood, health and safety in manual workplaces improved and fewer people smoked. As a result of this - coupled with a decline in the fertility rate (the average number of children that women have in their lifetime) - many major industrial countries are facing an ageing population ("Who Wants to Live Forever? - Why Are People Living Longer?").

I have first-hand knowledge of the advances in medicine. My grandpa suffered a heart attack at the age of 67. He had a triple bypass surgery that saved his life. Not only did he survive the extensive surgery, but he survived being allergic to the blood thinner they gave him after the surgery. Because of the advancement of medical science, I have enjoyed four extra years with him. Thankfully he was insured so the extra medical costs resulting from the surgery did not affect his retirement. Medical insurance does not always cover everything, and medical needs can cause one to have less retirement income. Rising health care costs punish our nation on multiple fronts. For families and seniors, the soaring cost of medical care means less money in their pockets and forces hard choices about balancing food, rent, and needed care ("Rising Health Care Costs"). Many elderly people will do without needed prescriptions due to the inability to pay for them because their retirement income is not enough to cover the costs. My grandpa is one of them.

Being able to support oneself in retirement is very important. If one would start early they will have a greater chance for your investments to grow and be able to retire comfortably. One might even be able to retire early. Louann Lofton states "another reason to be long-term focused is the amazing power of compound interest" (Lofton 154). Compound interest is basically interest on top of interest. A principal deposit or loan will have interest. That interest will have additional interest. This is known as compounding. Start small if one has to and try to increase the amount one can save each month. The sooner one can start saving, the more time your money has to grow (see the chart below) ("Top 10 Ways to Prepare for Retirement").



As one can see from the chart above, investing $5,000 each year has the potential to grow significantly. Save early to retire early.

There are many risks associated with investing money for retirement. Inflation, catastrophic events or stock market crashes could affect ones investment. By October 6, 2008, the Dow Jones Industrial Average fell below 10,000 points for the first time since 2004. Three days later, it would drop below 8,600 (Lofton 3). This was a scary time for people. They witnessed their retirement account values plummet. Several companies went bankrupt. Lehman Brothers is one of these companies. Founded in 1850, Lehman Brothers became the 4th largest investment bank in the United States. Due to the 2008 stock market crash, Lehman Brothers was forced to declare bankruptcy. A few years have passed and the stock market has made considerable gains. Currently the Dow Jones Industrial Average is around 17,000.

Gas prices have risen significantly over the years. This affects the economy and the amount needed for retirement. The cost of crude oil can rise with due to conflicts in the Middle East where most of the world’s crude oil supply is located. Since 2008, the weak state of the global economy, militant attacks in Nigeria's oil region, natural disasters in Asia, political instability in North Africa and the Persian Gulf, and geopolitical tensions in the Middle East have had significant influence on the price of crude oil (Rogers,”Global Issues…”). This can cause someone to invest less in their retirement if gas prices rise, then the cost of driving to work will increase if they rely on an automobile for transportation.

The value of the dollar is also a contributing factor to investing for retirement. There is concern that the Chinese central bank, which has over $1 trillion invested in United States dollars, could sell and cause the US dollar to decline significantly. Three authors that predicted the first financial meltdown do not believe this is feasible. China’s primary motivation in buying dollars is to keep the price of their currency, the yuan, lower relative to the dollar, and thus keep the price of their goods low for their number-one customer, the United States (Wiedemer, Wiedemer, and Spitzer 72). Being afraid to invest because the value of the dollar may decline should not keep anyone from investing, Inflation is a concern because the price one pays today for an item is different than what one will pay in the future. If inflation were three percent each year, an item that cost $200 in 2012 would cost $361 in 2032 and $485 in 2042. If one ignores inflation, than one will be seriously overestimating their ability to fund their retirement expenses (Cullinane 233). This means that groceries will be more expensive at retirement so more money will be needed to be able to purchase them. Money will need to be invested early so one will have the money to cover the items that have risen in cost due to inflation.

In conclusion, it is essential that one starts saving for retirement in ones 20's in order to be able to have an income in your 60's when it is possible that one will no longer be able to work. Social Security should not be relied upon because there is a chance that it will not be available or the benefits will be reduced. If one invests early and a catastrophic event happens then their investments will have time to recover before they retire. People are living longer with advancements in medicine causing a need for money to be available for a longer period of time for retirement. Investing early is a key to early retirement and a successful retirement.

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