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Millennials – Why We Should Start Retirement Saving Today

Millennials-- those in their 20s and early 30s-- should create a financial plan that balances paying down debt and building up savings.

While this is true for all generations, Millennials in particular often find themselves stuck with high student debt, low income, and an abundance of time until retirement.

All these factors may cause them to conclude that saving for retirement can wait for another day. Because of this, I want to delve deeper into why it is so important to start saving early for retirement in order to achieve financial independence. And the reason is compound interest.

Millennials work hard for their money, usually with a 9 to 5 job or through self-employment. They exchange time and expertise for income. Compound interest allows them to flip the tables and have their money work for them.

And the sooner they start saving, the greater the effect compound interest will have on their investment portfolios.

Compound interest is interest earned upon interest. If one has $10,000 earning seven percent annually, after one year he or she will earn $700 in interest for a total account balance of

$10,700. The following year, earning seven percent on $10,700 will provide a gain of $749 in interest. Even more interest is earned in the second year due to compounded interest.

Initially the increase in interest appears slow, but over time it begins to snowball and can have a significant impact on an investment portfolio.

To illustrate, consider twins Jack and Jill. Jill understands the power of compound interest and decides to start saving young, putting away $5,000 per year starting at age 25. She decides to save this amount for 10 years, making total deposits of $50,000.

Jack knows he should save for retirement, but tells himself he is young and will start next year. He tells himself the same thing next year. And again for the next few years. He finally decides at the age of 35 to start saving $5,000 per year, and since he starts later, he decides to save that amount for 30 years. He feels good knowing that he will make total deposits of $150,000, or three times the amount that his sister Jill deposits.

They both invest their money in the same way, earning seven percent interest until age 65. So who will have the larger amount? The answer may be surprising: Jill, with more than $600,000.

Jack puts three times more money into his account, yet he is looking at an account worth $540,000. Jill started saving young and let compound interest do the heavy lifting.

We can see that a little sacrifice today can go a long way toward financial freedom tomorrow. Millennials who are still unconvinced should ask people who started saving for retirement later in life if they wish they had started earlier.

Millennials should then pose this question to themselves and ask: If I delay saving today, what will I tell my own children 30 years from now?

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Kevin Webb is a Certified Financial Planner with Kehoe Financial Advisors of Cincinnati, a 33-year-old financial advising and services practice. Kehoe assists clients in developing and implementing financial strategies to help meet retirement, estate and business planning objectives, business continuation and succession planning. For more information, go to www.kehoe-financial.com or call (513) 481-8555.