



Retirement Planning Essentials for Young Adults

Get a Head Start
on Securing Your
Financial Future



Getting Started

Are you ready to build your retirement? If you're just starting your career, it's probably not top of mind. Right now, retirement might seem like it sits on a distant horizon, a far-off dream amid the rush of starting careers, building relationships, and exploring personal freedoms. But this is also when smart, early decisions can set the course for a financially secure and fulfilling future.

We're here to demystify retirement planning, breaking it down into manageable, actionable steps that align with your current lifestyle and long-term aspirations. You'll see key steps to take to ensure your planning starts (and stays) on the right path. And you'll see common mistakes to avoid.

In these pages, you'll discover why starting early is not just a wise choice but also a crucial one. We'll delve into compounding interest, maintaining a steady approach to savings, and setting realistic (yet still ambitious) retirement goals.

Whether you're savvy with savings or just starting your savings for the future, this guide is designed to provide you with the confidence needed to make informed decisions. From choosing the right retirement accounts to understanding investment strategies tailored for your age group, we're here to help ensure the path to your retirement is as rewarding as the destination itself.

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Harnessing the Power of Compounding Interest

Growing up, the adults in your life likely told you to put money away for a rainy day. What they probably didn't explain was how putting that money aside when you're young could significantly amplify your wealth over time.

If you begin saving as early as possible in a tax-advantaged retirement account, you can make the most of compound interest – which is earned on both the initial principal and the interest accumulated over successive periods.

In short, you're earning "interest on interest," which can cause your wealth to grow exponentially over time. Skeptical? Just compare these two scenarios:

Scenario #1

The "Early Bird" Planner

This person saves \$5,000 annually (from age 20 to 30), for a total of 10 years, and then stops contributing. However, the saved amount continues to grow at a 7% annual rate of return until age 65. By retirement, they would have approximately \$901,555.

Scenario #2

The "Better Late Than Never" Planner

This person begins saving \$5,000 annually at age 40 and continues until age 65, for a total of 25 years. With the same 7% annual rate of return, they would have approximately \$367,419 by retirement (roughly \$550,000 less than someone who started saving in their 20s).

\$901,555 vs \$367,419



Mistake to Avoid: Not Starting Early Enough. *The earlier you start saving, the more significant the accumulation from compound interest.*



Getting Ahead of Retirement Planning

Beginning your retirement savings in your 20s and 30s is an ideal scenario for getting ahead. As discussed earlier, starting early gives your investments time to grow, reducing pressure that may come later in life.

Younger adults also tend to have fewer financial burdens, making it a good time to allocate funds to prepare for future financial uncertainties such as economic changes, personal health, or work arrangements.

A retirement budget isn't just about tracking current expenses but rather about crafting a realistic financial road map that balances today's needs with tomorrow's aspirations. Simply start with the basics:

Tips to Follow

+ Set Clear Retirement Goals

What does retirement mean to you? When do you plan on retiring? What lifestyle do you envision leading? Once you answer these questions and establish a plan, use online calculators [<insert web calculator link specific to the subscriber>](#) to estimate the savings needed to achieve your goals.

+ Create a Budget Focused on the Future... and Stick to It!

Track your current income and expenses. This includes regular bills, discretionary spending, and occasional expenses. Understanding where your money goes is the first step to managing it better. Then, allocate funds for emergencies, life goals (vehicle, home, etc.), and retirement. Look for areas where you can reduce spending, pay down debt, and increase savings.

Mistakes to Avoid

✗ Not Taking Advantage of Moneymaking Opportunities

Consider part-time work or side gigs you can do in your free time to supplement your income and increase your savings. Also, consider and pursue appropriate advancement opportunities when they present themselves at work.

✗ Not Prioritizing Savings

Make saving a non-negotiable part of your budget. This includes emergency funds, retirement savings, and other long-term financial goals. A "60/30/10" rule is a popular approach among young people, which involves allocating 60% of your income to needs, 30% to wants, and 10% to savings and debt repayment. Also, automating your savings deposits can ensure you consistently set aside money.



Building and Managing Your Savings and Investments

From building a financial safety net to understanding the nuances of retirement accounts and their tax implications, managing your investments can be tricky without preparation. The following guidelines are designed to help you navigate the complexities of retirement planning effectively.

Tips to Follow

+ Establish an Emergency Fund

This fund is your financial safety net, separate from your retirement savings, to cover unexpected life events. Aim to save three to six months' living expenses in an easily accessible account. This fund will help you avoid using retirement savings during financial emergencies, so you can stay on track without the stress of unforeseen expenses.

+ Utilize Employer Retirement Plans

If available, participate in employer-sponsored retirement plans, especially if they offer matching contributions. Contribute at least enough to get the full match, as employer matches can significantly increase your investment at no additional cost. Also, these plans often offer tax advantages, either deferring taxes until retirement or allowing tax-free growth, depending on the type of plan.

+ Open and Contribute to an IRA

Even if you are participating in your employer-sponsored retirement account, consider opening a traditional or Roth individual retirement account (IRA) based on your income level and tax situation. Regular contributions can significantly boost your retirement savings. IRAs offer more investment options and potentially lower fees than many employer plans.

Mistakes to Avoid

✗ Don't Have a "Set-It-And-Forget-It" Mindset

Don't be complacent! Define your retirement goals and regularly review them. Adjust your savings strategy as your career and life evolve.

✗ Missing Out on "Free Money"

Maximize employer-sponsored retirement plans, especially for matching contributions. This is essentially free money that can substantially increase your retirement savings.

✗ Not Understanding Tax Implications

When opening an IRA, make sure you understand the different tax implications of traditional and Roth IRAs. The choice between them depends on your current tax bracket (and your expected tax bracket in retirement). Making an informed decision can maximize the tax benefits of your IRA contributions.



Crafting Smart Investment Strategies

If you have additional money to save, you will likely be better served growing your net worth by investing in stocks or assets like real estate.

Investing in the stock market is easily the most accessible way to obtain capital growth that will help you enhance your savings. As your net worth grows, it will provide you with more financial flexibility and, when the time comes, can result in having enough funds for a secure retirement. If you're new to investing, consider the following:

Tips to Follow

+ Embrace Diversification

Diversify your investments to manage risk. Include a mix of stocks, bonds, and other assets like real estate or commodities. Your risk tolerance – how much volatility you can comfortably endure in your investments – should guide your investment decisions. A higher risk tolerance often means a greater allocation toward stocks, which typically offer higher returns with higher volatility than bonds.

+ Understand and Manage Investment Fees

Be aware of the fees associated with your investments. High fees, especially for actively managed funds, can compound over time, reducing the overall return on your investments. Consider low-cost index funds or exchange-traded funds (ETFs) to keep expenses down.

+ Regularly Review and Adjust Your Portfolio

As your life circumstances and financial goals evolve, so should your investment strategy. An annual portfolio review is a good practice to ensure your investments align with your current goals and risk tolerance.

Mistakes to Avoid

✗ Investing Too Conservatively or Aggressively

Diversify investments to balance risk and growth. Young investors can generally afford more risk but should avoid overexposure to any single asset. Avoid overreliance on your employer's stock.

✗ Ignoring Investment Fees

Monitor investment fees to maximize returns. Lower fees can significantly impact your savings over the long term.

✗ Not Updating Your Retirement Plan

Life changes require adjustments in your investment strategy. Regularly review and rebalance your portfolio to align with your current goals and risk tolerance.



Staying on Track

Like so many lifestyle changes, starting a retirement savings plan is the easy part. The difficulty comes in maintaining your focus and contributions, even in the wake of financial uncertainty, life changes, and other unexpected events.

Retirement savings, even with automated contributions, don't always follow a straightforward path. The following tips can help you prepare for those unexpected twists and turns.

Tips to Follow

+ Increase Savings Over Time

As your income grows, progressively increase your retirement contributions. Aim to save at least 15% of your income for retirement, including any employer match. By keeping contributions proportional with salary increases and other sources of income growth, you're more likely to achieve your retirement goals ahead of time.

+ Adjust Retirement Savings Goals With Life Changes

Life events like marriage, having children, or buying a home can significantly impact your financial needs. Failing to update your retirement goals in response to these changes can lead to insufficient savings in the future. Be realistic in assessing your present – and projected – financial needs, to ensure your goals remain attainable.

Mistakes to Avoid

✗ Underestimating Retirement Duration and Expenses

A common oversight for young adults is underestimating the length of retirement and the associated expenses. Educate yourself about your potential longevity and the costs involved in retirement. This knowledge will help you choose and monitor investments and make informed decisions about when and how to rebalance your portfolio to meet your long-term needs.

✗ Not Understanding the Different Types of Financial Advisors

When seeking professional financial advice, it's crucial to understand the difference between fiduciary and non-fiduciary advisors. Fiduciaries are legally obligated to act in your best interest, while non-fiduciaries may have conflicts of interest. Not knowing this distinction can lead to choosing an advisor whose guidance may not align with your best financial interests, especially regarding investment choices and retirement planning strategies.

Continued

Tips to Follow

+ Stay Informed and Educated

Continuously educate yourself about financial planning and investment options. Stay abreast of changes in tax laws and financial products that could impact your retirement planning. Regularly consult with a financial advisor or use reliable online resources to understand market trends and make informed decisions.

+ Seek Professional Advice When Needed

Consider consulting a financial advisor for personalized advice, especially during major life transitions and when dealing with complex topics like tax planning or investment choices.

+ Consider a Health Savings Account (HSA)

As your income grows, consider contributing to a Health Savings Account (HSA) if you have a high-deductible health plan. HSAs offer triple tax advantages and can be used for medical expenses in retirement.

Mistakes to Avoid

✗ Neglecting Health and Wellness Planning for Retirement

Failing to consider the long-term impact of health on retirement finances is a critical oversight. The cost of healthcare in retirement can be substantial, and poor health can lead to increased medical expenses. Additionally, the link between physical and mental well-being and financial security is strong. In your 20s and 30s, establishing healthy routines not only contributes to a better quality of life but also can reduce future healthcare costs.

✗ Failing to Plan for Short-Term Financial Crises

A common reason for early withdrawals from retirement accounts is the lack of preparation for financial emergencies, such as unexpected medical expenses or job loss. As pointed out earlier, you should establish and maintain an emergency savings fund that will cover three to six months' worth of expenses. You should also maintain appropriate insurance coverage (health, disability, property, etc.).

✗ Making Early Withdrawals

Resist the temptation to withdraw from your retirement accounts early, which can incur significant taxes and penalties.



In Conclusion

Navigating the complexities of retirement planning can be challenging. From building a financial safety net to understanding the nuances of retirement accounts and their tax implications, managing your investments requires careful preparation.

There's certainly a lot more to say about each of these topics. However, following these steps and avoiding common mistakes can help young adults lay a concrete foundation for a financially secure retirement.

Let's continue the conversation.

If you need help with your retirement planning, please [< Insert contact information specific to the subscriber >](#)

[< Subscriber's logo >](#)

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