Building Independence

"Surviving on Social Security or Having the Freedom to Live"

By line: Doug Horn, CFP®

Retirement should not come as a surprise to anyone and yet so many are not prepared for this transition. Many lack the resources to retire or what they have accumulated in all likelihood will not last their entire retirement. If the idea is to rely on social security income, this may not permit you to do all that you want to do or meet all of your financial obligations. For centuries, many societies provided in a variety of ways for those who could no longer work or who were impoverished. These solutions generally provided for basic needs and did not include amounts for discretionary spending. According to the Historical Background and Development of Social Security on the administration's website (www.ssa.gov), in the U.S., one of the first programs was the Civil War Pension for disabled veterans as well as widows and orphans because of a deceased Civil War veteran.

The financial collapse in the 1890's resulted in the realization that despite an industrialized economy, the threat to financial security and unemployment could still happen to those who were fit and able to work. In 1934, it was believed that over half of the elderly did not have enough income to sustain themselves due to the faltering economy and their lack of financial assets. After many proposals and local or state programs, on August 14, 1935 President Franklin D. Roosevelt signed into law the 1935 Social Security Act (https://www.ssa.gov/history/35acti.html). This program was intended to provide for the 'aged needy individuals' and to provide for 'old age assistance'. While Social Security now exists, it does not replace the need for personal assets.

From 1900 to 1930, the life expectancy jumped by more than 10 years due to improved access to healthcare. This contributed to the growth of the elderly population and the issues facing those who could no longer work because of their age. A similar expansion of life expectancies has occurred in the last three to four decades and yet the 'age of retirement' is still generally considered to be 65. With the creation of the Social Security Administration it was a safety net for the elderly who could not work and provide the income to meet basic needs for the few years of life after age 65. With the retirement period now reaching 20 years and for some 30 years or more, to live only on social security designed to meet basic needs is not the dream for most workers.

To build financial independence and have the freedom to enjoy many amenities during retirement, requires individuals to start preparing for this period of life years in advance. One thousand dollars to a 23-year-old may mean the down payment on a new car or a deposit to a new apartment. But, it can also mean $64,000 of retirement assets. If invested in equities, over the long-term the equities markets have averaged a little over 10% annually which results in values doubling approximately every 7 years.

The investment of $1,000 annually by a 23-year-old, $42,000 total commitment by age 65, could result in retirement assets exceeding $660,000! If returns were as low as 7%, the value could still be greater than $240,000. This assumes the individual never increases their annual contribution or works for a company which provides a match for money invested in the company's retirement plan. These results occur because of consistency and time value of money. The less time, the lower results.

What if age 23 is now in the rearview mirror? Is it too late to start? As I hope you have heard before, the answer is no. It will take a larger annual commitment to reach the same values of someone starting in their early 20's, but it may still be possible.

Having provided financial advice to investors for over 35 years, I have been amazed at the number of times investors fail to roll small retirement values to personal IRA's, opting to take these funds and spend them. Or, for many younger investors saying they will start once this or that is done, only to see years go by before the need to start saving for retirement rises to the top of their priority list. Challenges face each of us without the need to self-impose new ones or to wait so long that goals become impossible.

It takes $83.33 per month to reach a target of investing $1,000 annually. This requires discipline and consistency, but the results are independence and personal security. By increasing the monthly investment by just $10 each year, the result could be more than 10 times the results of just $1,000 annually! Starting at $83.33 and increasing by $10 annually, brings the monthly investment to $503.33 after 42 years. Depending upon the industry and position, this could represent less than 10% of the annual earnings.

Achieving financial independence is often the culmination of many successful small steps rather than one or two major decisions. Minimizing the amount of credit card debt which is carried over each month reduces the amount of money lost to interest expense. Creating an emergency fund of two to ten thousand dollars enables most individuals to avoid ‘charging’ their way out of an emergency. Once emergency funds are used, curtailing entertainment and other expenses is necessary so that money is available to replenish the emergency account. Paying yourself first, rather than investing what is left over, will permit most to build retirement assets as there is rarely money left over to invest. For those who may lack self-discipline, working with a financial coach (advisor) could be the best decision of all.

About the author:
Founded Quality Financial Concepts in 1983 and serves investors locally and across the country.

Doug Horn, CFP
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