

At What Age Should I Begin To Fund My Retirement Plan?

By Mark E. Charnet

Is there a correct age that would answer this question? I believe the answer is at birth for the parent of a new born child and if that didn't or doesn't happen, certainly upon the child's earning his/her first paycheck from his/her first serious job. Let's assume the first serious job is right out of high school or college, then how much would be an appropriate contribution amount and which vehicles should be used to accomplish this task? Before going there, a few more questions if I may. How many 18 and 22 year olds are even thinking about their retirement plan given the fact that retirement is a concept they do not understand nor can visualize in their minds since the distance between earning their first paycheck and their last one are probably 45 years apart? In thinking about paying the rent or a mortgage and property tax, with a car payment, auto insurance, renter's or home owner's insurance and student loan payments is there room in the budget for a retirement contribution? What about food expenses, the hefty cell phone bill, internet and TV bills, utilities and entertainment expenses? When discussing the financial future of young people I frequently hear, "I have to put away for my next vacation" and often hear "Mark, you don't understand, I have to live today you know." How many young people purchase a car they can't afford and obligate themselves with payments at the expense of a robust emergency account and or a secure retirement fund? Did I forget allocations for clothes, jewelry and dating? With so many slices in the pie that most call their budget and since retirement is such a faraway concept, can't that wait until next year or the year after that? "I'm too young to think about retirement planning, that's for older people to worry about" a 25 year old young man once told me.

Readers, thank you for your attention to this and all of my columns you have read; I can sometimes write or have an opinion that is controversial which, can either rally people to my point of view or push them away with the opposite effect. However, on this particular topic of when to start funding a retirement plan there should be no detractors or anyone with an opposing point of view; the facts speak too strongly in my favor. Let's spend a moment on inflation: the Federal government decided that 1967 would be the starting point to look back over the ensuing years to determine how much a dollar is worth when comparing it to a 1967 dollar and you know what, the statistics will astound you. In 43 years a dollar has depreciated in value, according to the CPI, Consumer Price Index, **to a paltry 15¢**. This is an 85% shrinkage. If a young man of that era starting his working life at 22 years old, planning to retire at 65, 43 years in the future, setting out to replace his working income based on his then current annual salary of let's say \$7,500, he would need to accumulate \$150,000 to succeed. This assumes a 5% withdrawal rate during his retirement years. But, he would need to save a full 10% of his annual salary, \$750.00 per year, at an annual rate of return of 6.23% to accomplish this goal. If our young man accomplished this feat through sacrifice and discipline how should he feel entering his retirement years to learn that 85% of his success was eroded by inflation. His \$150,000 nest egg would actually be worth \$22,500 when he retires with a resulting **annual income of \$1,125.00 in 2010 real dollars!** He thought he had a good plan and started early enough and put away 10% of his then annual income religiously never missing a contribution

nor earning less than 6.23% per year. Based on these figures he is poverty stricken and dependent on Social Security and others. Why did he fail? What did he do wrong?

Most of us would agree that his starting contribution level was excellent, as was his commitment and discipline to continue to invest every year. The rate of return of over 6% was also an adequate and safe assumption given the time frame. And even though everything he did was correct, he came out 85% short at the end due to inflation. Assuming the same rate of inflation over the next 43 years, \$1.00 in 1967 that was worth 15¢ in 2010 would be worth a measly 2.25¢ in 2053! So everyone planning to retire in the future must combat the same negative forces of the past in order to be prepared and fiscally fit.

What is inflation anyway and what can we do to win this battle? In simplistic terms, the cost of goods and services rises over time, as do wages and the cost of living; these are just a few of the components of the CPI and how we measure inflation. As raw materials and fossil fuel gets consumed, the law of supply and demand dictates that prices increase. Unions go on strike for more money not less and God makes more people but no more land and the law of supply and greater demand once again mandates that land prices increase. There is no leader, government or corporation that can alter these rules, yet the Federal Reserve Bank tries to manipulate them by injecting or reducing capital in our economic system by raising or lowering interest rates and thereby the cost of borrowing. In my opinion the ultimate way to beat inflation is to invest in shares of the companies that produce the goods and services that continue to raise prices to increase their profits and profit margins. By becoming an investor in the economy, both foreign and domestic, we as consumers do have a fighting chance!

This article is not a lesson on investing properly or stock picking, it was written to demonstrate that the earlier you get started investing, the consistency of your investments and understanding the forces of inflation, both as a consumer (negative) and an investor (positive), one can understand and appreciate how and why these factors must be considered, planned for and counted on for success in accumulating capital for retirement. Many studies have been conducted and prove to demonstrate how the stock market, over the long-term, produces the best rate of return when compared to other asset classes. It's true that investing in the stock market presents certain risks in the short-term, but, over the long-term there is no equal. Today, unlike in 1967, there are stock market based investments that coupled with an insurance company guarantee* can insure an income that cannot be outlived or diminished even during declining markets. Warren Buffet, Sir John Templeton, Mario Gabelli and other great stock market money managers have stated that timing the stock market is extremely difficult and most guess incorrectly, yet, time invested in the stock market has proven to be most rewarding, especially when compared to government bonds, municipal bonds, corporate bonds and other fixed income or fixed principal investment alternatives.

To address the question in the headline of this column more succinctly, At What Age Should I Begin To Fund My Retirement Plan? In my mind, the answer is **yesterday!** Don't lose any more time out of the market or without an insurance company principal guarantee*. Call me if you need help, guidance or

have any questions about your own retirement plan(s). There is never a fee or charge for any consultation nor obligation or commitment to purchase anything, no kidding!

*Mark E. Charnet is President and Founder of American Prosperity Group. APG is the Premier Retirement and Estate Planning Franchise in the United States with 15 offices in 8 states. Mr. Charnet has nearly thirty years of experience in the Retirement and Estate Planning fields. Creator of the Trinity Method of Investing©, Mark encourages your inquiries and can be reached at: 800-929-3374 or 973-831-4424 or via email, markcharnet@IAPG.com Check out our website: www.IAPG.com Interested in a career in retirement and estate planning? Check out this website: www.APGFranchise.com *Guarantees are based on the claims paying ability of the insurance company selected. Securities through: BCG Securities, Inc. Member SIPC, FINRA and a Registered Investment Advisor*