By: KJ Vorndran

One in three Americans has not saved a single penny for retirement[1]. To achieve any measure of financial independence, saving early and investing is the key. By saving early, investors capitalize on the powerful concept of compounding returns, which allows their contributions to grow into larger amounts. For example, investing $3,000 for just 5 years starting at age 25 and making no more additions or withdrawals until age 65 will result in more earnings than if someone invested $10,000 for 5 years at age 40 and left the money to grow until 65. It may not sound difficult to save at an early age, but neither is exercising or eating healthy, yet many of us aren't doing enough in those areas, either.

Encouragingly, it is entirely possible to become a millionaire through early savings. In fact, studies conducted by the economist, Dr. Thomas J. Stanley[2], indicate it is a realistic goal even for modest income earners. Hopefully this paper will help generate compelling and important conversations with family members, especially children or grandchildren, and our Wealth Advisor team would be happy to participate in these dialogues.

The American Dream

Arguably, the premise of the term "financial freedom" derives from the concept of the American Dream, which came about as the desire to secure the basic rights to Life, Liberty and the Pursuit of Happiness[3]. In the 1920s[4], the dream shifted from ideals-based to material and acquisitions-based, as perhaps best exemplified by the classic "The Great Gatsby." The American Dream now, in part, is built around consumerism. This theme not only contributes to driving the modern American economy but also plays a major role in the struggle to save money.

Why The Dream Often Falls Short

The notions of keeping up with the Joneses, YOLO (you only live once), and FOMO (fear of missing out), are driving factors for many of the poor financial decisions made by younger generations. In fact, an interview conducted by the Wharton School of the University of Pennsylvania[5] examined the impact of the YOLO and FOMO mindset on the amount

[1] Kirkham, Elyssa. "1 in 3 Americans Has No Retirement Savings." *Money*,Time, 14 March 2016, http://time.com/money/4258451/retirement-savings-survey/

[2] Stanley, T.J., & Danko, W.D. (2016). *The Millionaire Next Door: The Surprising Secrets of Americas Wealthy*. Lanham, MD: Taylor Trade Publishing.

[3] Hanson, Sandra L., & White, John Kenneth. (2011). *The American Dream in the 21st Century, The Making and Persistence of the American Dream*. Philadelphia, PA: Temple University Press

[4] Amadeo, K. (2017, Feb. 17). What is the American Dream Today? Retrieved October 12, 2017, from https://www.thebalance.com/what-is-the-american-dream-today-3306027

[5] Is FOMO (Fear of Missing Out) Driving Up Consumer Debt? [Interview by E. Sharma & S. Tully]. (2017, July 31). In *Wharton School of the University of Pennsylvania*. Philadelphia, Pennsylvania: Knowledge @ Wharton.

of debt Millennials carry, which erodes their ability to contribute to retirement accounts. On average, Millennials spend between $7,000 and $10,000 annually on discretionary expenses, which are primarily funded by debt, not cash. Millennials seem focused on the short-term and instant gratification, rather than living within their means, budgeting, and saving for retirement. A June 2017 survey by Charles Schwab[6] examined the behavioral spending patterns of Millennials compared to other generations. Millennials spend more than any other peer group on discretionary, short-term expenses including boutique coffee, smartphones, eating out, etc. rather than saving for long-term investments. A study[7] indicated these types of short-term spending patterns could have a damaging impact on the end value of a Millennial's retirement savings, as 42% had not yet started a retirement fund.

Longevity disconnect[8] explains another reason why Millennials find early savings so problematic. This disconnect occurs when younger generations are unable to internalize the idea of retirement and the correlating spending patterns associated with old age. For example, individual medical expenses can exceed $25,000 annually between the ages of 70 and 90, per a 2015 National Bureau of Economic Research[9] report.

Millennials Want to Learn how to Manage Their Finances

One study[10] found 87% of Millennials want financial education and would like to meet with a financial advisor, specifically face-to-face. This interpersonal contact and social support can help foster and expedite a Millennial's financial education – and ultimately help nudge them to take action to start saving for retirement. Figure 1 demonstrates the positive impact of human-to-human interaction on achieving goals. While this study specifically addresses weight loss outcomes, the concept of human-to-human accountability is directly applicable to successful saving habits as well. Millennials can improve their chances of success if they follow through with discussing their financial goals with a professional and preparing a plan to achieve a retirement goal.

6 *How Americans Define and Manage Their Wealth* (pp. 1 -20, Publication). (June 2017).

7 Kirkham, E. (2016, March 14). 1 in 3 Americans Has No Retirement Savings | Money. Retrieved Oct. 12, 2017, from http://time.com/money/4258451/retirement-savings-survey/

8 Merton, R.C. (2015, May 19). The Crisis in Retirement Planning. Harvard Business Review. Financial Management. Retrieved Oct. 12, 2017, from https://hbr.org/2014/07/the-crisis-in-retirement-planning

9 Leatherby, L. (2016, April 26). Medical Spending Among the U.S. Elderly. Harvard Kennedy School, Shorenstein Center on Media. Retrieved Oct. 12, 2017, from https://journalistsresource.org/studies/government/health-care/elderly-medical-spending-medicare

10 Koco, L. (2015, September 28). IRI and the Center for Generational Kinetics Release New Millennial Research Study. Retrieved Oct. 12, 2017, from http://irionline.org/newsroom/newsroom-detail-view/IRI-millennial-study

Figure 1

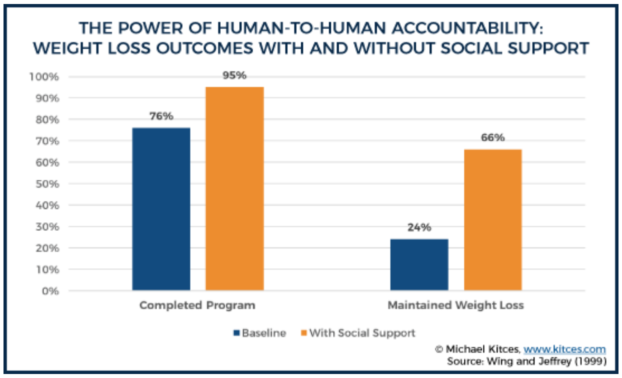


Figure 1 indicates the positive impact human-to-human contact can have on achieving goals.

Wealth - Net Worth vs. Income

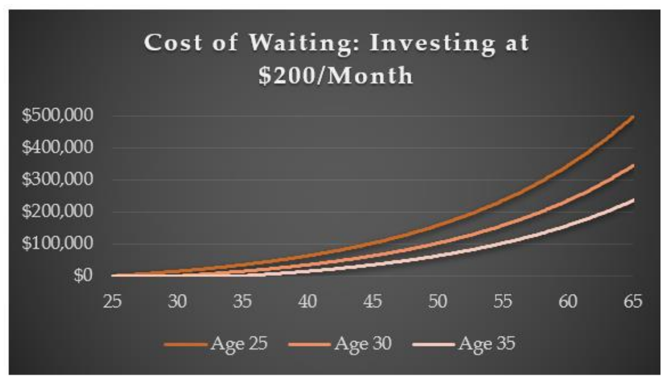
Dr. Stanley made the clear distinction that wealth and earned income are not as closely correlated as many believe. In his findings, net worth is directly related to the amount saved and invested - and not earned income. People earning $131,000 on average may tend to be millionaires, but it's not necessary to have larger incomes to achieve the millionaire threshold. Rather, the key to building wealth is simply under-consuming, saving and investing. Dr. Stanley[11] also revealed that one of the most valued benefits is financial independence – not the accumulation of material objects. The bottom line: *Millionaires become and remain millionaires because they don't spend too much of their money on things they don't need*.

The Value of Time

Millennials want to become financially independent, however they appear to lack the discipline or knowledge to take the first few steps leading toward financial freedom and wealth. What many young investors fail to realize is that time is their most valuable asset.

Figure 2 demonstrates that the earlier an investor starts saving, the more money the portfolio will generate (assuming a 7% return, an age 65 retirement, and a contribution of $200/month).

Figure 2



$200/ Month	65 Value
25	$497,303.29
30	$344,418.04
35	$235,412.97

$200/Month	Cost of Waiting
25 vs 30	$140,885.25
25 vs 35	$237,890.32
30 vs 35	$97,005.07

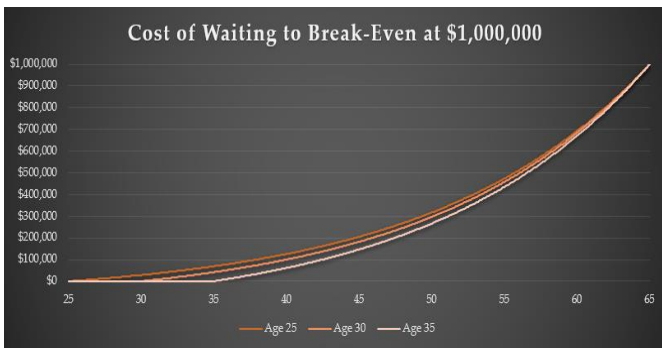
***Figure 2** illustrates the impact on the end value of an investor's earnings if they save early.*

[11] Stanley, T.J. (2004). *Millionaire Women Next Door: The many Journeys of Successful American Businesswomen.* Kansas City, MS: Andrews McMeel.

Delaying saving $2,400/year (if investing $200/month) for five years can cost an investor in excess of 50% of their retirement value at age 65 in total portfolio earnings.

Figure 3 shows the breakeven monthly savings rate needed to accumulate one million dollars by age 65. Investing early can save a Millennial tens of thousands of dollars over a 40-year period.

Figure 3



Age	Monthly Investment Needed to Retire with $1mm at age 65	Actual Contributions
25	$402.17	$193,041.60
30	$580.69	$243,889.80
35	$849.57	$305,845.20

Figure 3 *assumes an investment goal of $1,000,000 by retirement, at age 65. The figure examines the additional contribution amount needed if the saving begins at age 25, 30 or 35.*

Saving $400 per month beginning at age 25 for a period of 40 years (assuming retirement at age 65 and a 7% return) will result in $193,000 of actual retirement contributions. The rest of the portfolio's value is attributed to investment earnings. On the other hand, waiting to invest five years later can cost an investor more than $50,000 in actual contributions, because they must increase their monthly additions from $400 to almost $600 to achieve the same goal of $1,000,000 by retirement. If they wait ten years to invest at age 35, the cost of waiting is more than $100,000. Bottom Line: *The earlier a Millennial starts saving, the less it will cost and the more money they will accumulate.*

Figure 4 provides a detailed overview of the total cost of portfolio earnings when delaying investing on a yearly basis (assuming a 7% return, $500/month contribution, and a retirement age of 65). Waiting to invest just one year at age 26 versus 25 (a difference of $6,000 of actual contributions), can cost more than $87,000 over the investment lifetime.

Figure 4

Value of Investments at Age 65		
Beginning Age	**$500/Month**	**Annual Cost of Delay**
25	$1,242,758	-
26	$1,155,638	**$87,120**
27	$1,074,218	**$81,420**
28	$998,124	**$76,094**
29	$927,008	**$71,116**
30	$860,545	**$66,463**
31	$798,430	**$62,115**
32	$740,378	**$58,052**
33	$686,124	**$54,254**
34	$635,420	**$50,704**
35	$588,032	**$47,388**

Figure 4 *examines the cost of delaying investing by just one year.*

Conclusion

The first step to achieving a financially successful retirement is, quite simply, *saving*. The more money saved, and the earlier saving starts, the more money the portfolio will earn. Save as early as possible and live within or slightly beneath your means.

Millennials may not know where to start saving, even though they know they must prepare for retirement. However, Millennials are willing to learn and want to be educated to improve their chances of financial freedom during retirement.

A good first step would be holding an open conversation with younger family members to address some of the key points discussed in this paper. Our Wealth Advisor team would be more than happy to meet with you and your family to help prepare your heirs for their future financial freedom.

Tips to Save

Below are some ideas you could implement to help you save for retirement.

- Save at least 10% of your annual income.
- If you are unable to save this much income initially, start at a lower percentage and increase your annual savings rate by 1% each year.
- Out of sight out of mind – set up automatic bank transfers into your retirement savings accounts.
- Use free online budgeting tools such as Mint.com to keep a better eye on your monthly expenditures.
- Make a list of your monthly expenses, decide what you can cut, and use that money toward retirement savings instead.
- As a rule of thumb, about 30% of your income should be spent on housing. If you are spending more on housing, perhaps you should reconsider your living arrangements.

The examples used are hypothetical examples and are for illustrative purposes only. No specific investments were used in these examples. Actual results will vary. Past performance does not guarantee future results.

Allegiant Private Advisors, LLC has been providing fee-based asset management for individuals and organizations since 1997. Located at 240 South Pineapple Avenue, Suite 200, Sarasota, FL 34236, the firm prides itself on crafting unique strategies for each client. For more information, please visit www.AllegiantPA.com or call 941-365-3745. The financial professionals of Allegiant Private Advisors are Investment Advisor Representatives and offer advisory services through Commonwealth Financial Network, a Registered Investment Adviser.