Ep50: The Most Common Retirement Mistake

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PATTI BRENNAN: Hi, everybody. Welcome back to "The Patti Brennan Show."

For those of you who tuned into our prior two episodes on retirement planning and the mistakes people make, I can't get over the feedback that we've gotten on them. Thank you so much for your ratings and for tuning in, and especially for tuning into this show.

What we're going to be talking about, the retirement moves to make in your 20s and 30s. Whether you have $20 or 20 million, this show is for everyone who wants to protect, grow, and use your assets to live your very best lives. What we're going to be talking about today are the moves that our young people can make.

Joining me today is Maddie McTigue. Maddie is a very dear friend of the firm. She's been working with us for many years now, and I have known Maddie since she was four years old.

What I thought might be interesting for all of you who are listening today is I thought you might be interested in getting the perspective of a millennial, of someone who's actually right in it. To hear some of the lessons that Maddie has learned since she's worked here, and some of the things that she's recognized and learned from people that she's friends with.

Maddie, thank you so much for joining us today.

MADDIE MCTIGUE: Thanks for having me, Patti.

PATTI: You graduated, you had great education at Temple, you joined the firm right away, and you and your friends have your first jobs. Is there anything in particular that you've noticed that young people tend to make? Now that you've been here for many years now, have you noticed anything initially with that first job experience, and then what seems to be happening over time?

MADDIE: I think that a lot of people fall victim to the lifestyle inflation of your 20s. You start making money, you start buying things, getting your apartment, going out, and you can forget about how far retirement is away and saving. If you make the right moves now, even if it's really small, it can have a huge impact on your life later on.

PATTI: It's really a big deal. All of a sudden you guys are in high school, college. You never really made the kind of money that you're making when you graduate. Even with the first job, you've got this $30,000, $40,000, $50,000-per year job, or maybe even more, and you've got this cash flow of thousands of dollars.

You've got to make some choices. It might be your first apartment or the car, and even just like you said, lifestyle stuff. Lifestyle can be categorized in terms of your furniture, it could be categorized as running around with your friends and going out.

Now, all of a sudden it's not just Thirsty Thursdays. It's Freakout Fridays and Saturate Saturdays, and you're out there partying and having a blast with all of your friends. It's easy, and boy, what's 100 bucks at the bar? 100 bucks at the bar, you do that every weekend, it really adds up, right?

MADDIE: Yeah. If you create a way of saving, even if it's a small amount, then you can do those things and create a way to put the money away, not even think about it. Then, you can actually do those things and not worry about it.

PATTI: Maddie McTigue, you have learned very well. What you're saying here is that automatic savings yank the money out of your account, yank the money out of your paycheck upfront, and then go ahead and do all the things that you want to do. Work with that, so you save first, then spend the rest.

When we think about saving and doing all of that, it's also important to recognize that things are going to happen. What would you say? Build an emergency fund, right?

MADDIE: Yeah. Even out here at Key Financial, even when we're doing plans, we like to look at cash flows, like a three to six months emergency fund for everyone. Maybe that's an important thing as a young person to make sure you have that, because if something happens, you don't want to rack up debt for unplanned expenses.

PATTI: That's a really important point. Folks, listen up. By the way, for those of you who might be parents, feel free to share this episode with your kids, because it's our kids that we want to help. What an amazing difference we can make for our children and this young generation if they just know a few of these things.

By having that buffer money, it prevents those young people from racking up a lot of credit card debt, because that is a terrible snowball issue that a lot of people in America are faced with. Let's nip that in the bud by creating a buffer so that they're not racking up a lot of debt.

Let's talk about other kinds of debt, like student loan debt. A lot of our young people are graduating with student loan debt. It's really hard when you graduate and you've got this great job, and all of a sudden you've got these student loans.

Is there anything in particular that you've noticed in terms of yourself, friends, etc., in terms of the student loan debt, and then any advice for everybody listening today?

MADDIE: Yeah. The biggest thing for me that I see is that people are extremely uneducated on their own student loan debt. They graduate, and they have all this loan.

Whether it's just because they're overwhelmed and they don't even want to look at it, whatever the reason may be, they're really uneducated on the term of the loan, the interest rate on the loan, and even what their monthly payment is.

That's one of the first things that would be important for young people to do, once they get out of college, is to educate themselves on their loans and make sure that they know about all of their loans.

PATTI: You told us a story before we started today that was pretty wild. Tell us more about that.

MADDIE: I have a friend of mine who graduated, knew about our loans, was paying them. Four months had gone by, and she was pretty on top of her credit score. One day, she saw that it dropped 40 points.

She started to look into it, was like, "I pay everything on time. I have no idea why this happened," ends up there's a completely separate loan from college that she didn't even know about and had not been paying on it for the past four months. Now, she is working her way back getting her credit score back up, but it affected her in seconds.

PATTI: It's taken two years to crawl out, is that right?

MADDIE: Yes.

PATTI: FICO score, for those of you who are listening, is really important. If you're going to rent an apartment, or if you are looking for your next job, a lot of times your employer is going to look at your FICO score.

From an employer's perspective, it gives them an indication of the degree of responsibility that you might have – the fact that you are able to make a commitment and keep that commitment and pay on time.

If the FICO score goes down, they're thinking, "Gee, what happens if we have deadlines? What happens if we have this or that? I got to be able to count on this person, and if I can't count on this person to pay their loan every month, I'm not sure I want to hire them."

MADDIE: To add to that, it's also affected her personal life, because she's responsible, and she has a car payment, she has rent, things like that, and it's looked at in a very different light. Her car payment is more expensive now, because of the interest rate she received after this happened. It affects her personal life as well.

PATTI: That FICO score's really important. Again, take-away with that is understand what student loans you have, make sure you're aware of everything, and create a strategy to make sure that you're able to make those payments on time.

To Maddie's point - which, Maddie, I thought it was excellent - you've got to get educated because there are different ways to pay off your student loan debt. If you're just starting out, you can do an income-based repayment plan versus just taking that straight 10-year repayment.

Be kind to yourself, understand what the options are, and whatever you do, make sure you're making those monthly payments. Let's talk about more fun things.

We talk about the beginning, you're in your 20s, you might be single. You're living life, you got this great job, and we're talking about retirement here, Maddie. How many of your friends are thinking about retirement?

MADDIE: I don't think many right now.

PATTI: It's interesting. Most young people don't think about themselves in their 60s and 70s and 80s. They're just thinking about Thirsty Thursdays, Freaky Fridays, and Saturated Saturdays. Yet, the impact of thinking about that, and really getting involved in whether it be 401(k)s or IRAs, it's pretty dramatic, isn't it?

MADDIE: Yeah, definitely.

PATTI: Let's talk about the example that we talked about with saving, beginning to save at age 22. Let's build the story. You graduate from college, you're 22 years old, you got your first job, you're single, you're living your life, and you have this wonderful opportunity of putting money into a 401(k) or an IRA. Maddie McTigue starts right away, which you did, because I know that you did.

MADDIE: You started saving, and let's assume it's $300 a month. You do that religiously every month until you're age 62. How much money at seven percent rate of return do you have by the time you're 62 years old?

PATTI: $787,000.

MADDIE: It very seldom does, and I think planning ahead will help. Even if things do run smoothly for the duration of your retirement, knowing that you have a plan for when things don't will bring a level of comfort that'll help you actually enjoy your retirement rather than worrying about it.

PATTI: You have $787,000. Folks, for those of you who are listening, the total amount invested was $140,000. That's the amount invested, and it's almost 800 grand.

Now, let's pretend that we have another friend, and they say, "You know what? I don't want to be saving. I don't need to worry about retirement. For crying out loud, it's 40 years from now, I'm not thinking about that," and they choose not to save.

Sure enough, they turned 32 years old, and they wake up one day and they say, "OK, I guess I'd better start." They begin to start thinking of the future, etc. The same $300, folks, we are not increasing the 300. It's a flat 300, seven percent rate of return. How much does that person have?

MADDIE: $366,000.

PATTI: Same monthly investment, same rate of return, just started 10 years early. The cost between the two is $421,000. In other words, that's the cost of waiting and not saving in that first decade of your working years. It's a big deal.

MADDIE: Yeah.

PATTI: We talk about opportunity cost, we're not talking about what to do with the money. We're just talking about take advantage before you get married, before you have children, before you have the mortgage, before you have all of those responsibilities. Get started right away, it is a very big deal. Use compound interest to work for you, not against you.

MADDIE: $300 a month can seem like a lot at 22, but once you do it, it's like ripping a Band-Aid off. You don't even think about it ever again, and you keep going and you keep doing it for however many years it is, and it turns out to be a big deal.

PATTI: Yeah, automate it. Automate everything and just spend the rest. The other thing, if we can go back and circle back on the student loans, it's also important to understand the interest rates that you're paying on student loans and the credits cards, etc. We want to balance all of that.

Just keep in mind that if you're going to be doing the 401(k), you might have a pretax option, meaning whatever you're investing, it comes off of your taxable income, or you can do a Roth. I'm going to give you the advice that I gave to Maddie and my own children, and that is while you're young, and your tax bracket is relatively low, at least look at the Roth option.

That money grows tax free. Everybody listening, all of you are in your unique situations, everybody's different. Some of you might have student loan debts, some of you may not. Some of you might have credit card balances, some of you may not.

Here's the bottom line. Take what we're talking about today, think it through, and begin to apply the principles that we're talking about. The three takeaways that we have for all of you today.

Number one, watch lifestyle inflation. Be really careful. Don't let that sink in, this keeping up with the Joneses or your friends and that kind of stuff. That can really sabotage your future.

We're not just talking about your retirement. It could sabotage, in general, everything, because it can lead to credit card debt, a fall in your FICO score, and your ability to get that next great job that would pay you a lot more income. Be careful about how you're spending your money.

Number two. It's really important to get yourself a buffer, get an emergency reserve. That will also be a great way of preventing that credit card situation because you don't have the money and you've got to pay for something.

Last but not least, please, please, please, start saving early. I like to tell young people at least 10 percent of your income should be going into some form of savings. At the minimum, for those of you listening who might have credit card debt and student loan debt, at the very least, you've got to put whatever the matching contribution is that might be from your employer.

That's a drop-dead mandatory got to do it. For those of you who don't have that kind of debt, I'm going to say to all of you it's a mandatory at least 10 percent. Believe me, when you're 50 years old, you're going to look back and thank...I'm probably not going to be here, but you might thank somebody that you listened to this podcast and you did exactly that.

Maddie McTigue, thank you so much for joining me today. Thank you so much for giving us your perspective, because you're living it. You're seeing what's happening, and you're applying the principles that you've learned here, and helping so many people in your generation. It's a big deal. It's really important.

Thanks so much to all of you for listening in today. This podcast is for you. It doesn't happen without your input and your feedback, and I'm just so grateful to all of you for giving us the kind of feedback, the great feedback that you've been giving us.

It gives us the energy to continue doing them because we do it so that we can make a difference for all of you. Until next time, I'm Patti Brennan, and I hope you have a great week.