

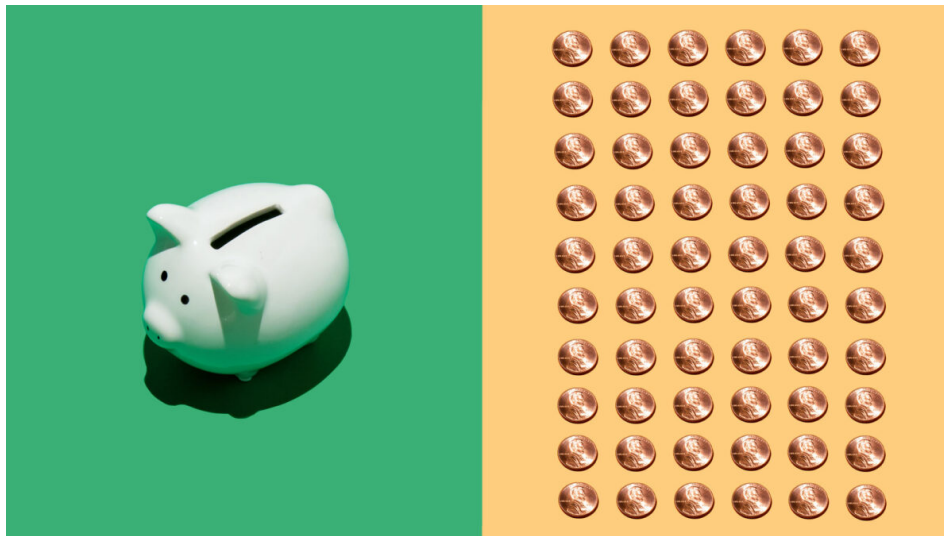


Recessions

What's the Point of Saving for Retirement in Your 20s?

by Andy Robinson

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Summary. The earlier you start saving for retirement, the better. One method to do so in the U.S. is through an IRA, a savings account made through a financial institution that builds interest over time. Interest is the money that automatically builds on the funds you put... [more](#)



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My 19-year-old sister and I are roommates in Boston, and despite my best efforts to not be “Dad,” I’m for sure acting like ours. I’m on a mission to convince her to start saving for retirement. Talking about retirement is peak Dad mode. I see it. I get it. I can hear myself. Or rather, I can hear our Dad saying, “Make sure you’re saving.”

But she’s skeptical, and full of logical questions, like: “Seriously, why do I need *another* savings account?”

My preferred investment vehicle is an [Individual Retirement Account \(IRA\)](#) — it’s a savings account made through a financial institution that builds interest over time and is taxed either when you add funds (Roth IRA) or withdraw at retirement (that’s called a Traditional IRA). Unlike your typical 401(k), these accounts aren’t tied to an employer, and the average percentage rate of returns fluctuates anywhere between 5% and 12% over a lifetime. (That’s much higher than the typical savings account interest rate of [about .06%.](#))

Wait, what is “interest” and why is it so important?

“Learn from my mistakes,” I tell her. By the time I took the plunge, I was 26 (I’m 28 now) — meaning I’d

There's a saying I really like about saving money: "Make your money work for you." You



missed out on a few years of collecting interest on my own money. "Do you want to *have* to work into your old age? What if you get sick and can't work? What if you want to retire early?"

But my sister is philosophical. She starts in with the existential questions: "Isn't it true that you can't access that money until you're in your 50s? Will we even live that long? What's the point?"

This question is tougher for me to answer coherently. She thinks she'll die young, and throwing money into an account she doesn't think she'll ever use seems kind of pointless.

"What are you even saving for?" she asks.

What's the use in having money that you can't access readily when you may need it the most now? Is it safe to trust financial institutions during an economic recession? Is retiring really realistic anymore with so much student loan debt, the high cost of health care, and rising housing costs?

I needed help answering these questions, both for my sake and my sister's. So I brought them to an expert: Megan Leonhardt, a senior money writer for CNBC. Megan has published extensively on financial planning, and she says that Gen Z should take advantage of saving for retirement early. Here's what I learned from our conversation.

Is it true that if I put my money into an IRA, I won't be able to access it until I'm in my 50s?

Your money isn't untouchable. When you contribute to an IRA, your money isn't locked away in some unattainable place. It's not as easy to access as your checking account, but it *is* accessible.

I know that experts [say] "Don't touch your retirement savings," but there are a lot of exceptions where you can actually use that money if you run into real problems. It's not locked up forever. Yes, you will have to pay some penalties on it, depending on how you're using it, but if you need that money, it's there, and it could be a safety net.

The penalty is a 10% fee if you withdraw before age 59-and-a-half, but there are a few penalty-free exceptions. It's also worth noting that if you use a Roth IRA, you can withdraw any contributions from it at any time, penalty free.

Will I even live to see that money?

If you're worried that you won't live to see your funds, consider using a will to designate your money to a cause you believe in, should the worst happen too soon.

I myself and so many Millennials and Gen Zers [are] passionate about trying to find causes that we can really get behind. Certainly, naming family and friends as beneficiaries is a good option too — but no matter the outlet for your money, it's good to know that *if* you don't live to see your retirement funds, someone else will.

Can I actually trust financial institutions?

Yes, but do your homework. We feel the repercussions of financial problems when they hit. The 2008 recession was 12 years ago, but those who lived through it don't struggle to remember it. Banks were bailed

out by the taxpayers, yet it feels like some Wall Street CEOs still got bonuses while retirement funds disappeared. It was scary. I watched my parents' 401(k) get wiped out by 30% to 50%.

A healthy amount of skepticism is really crucial to have, because it forces you to make sure that you're understanding everything and also protecting yourself.

These institutions have millions of customers, and unless you're paying for a financial planner's help, you're on your own. If a financial planner meets with you, take their card and do some digging. Read up on the companies. No institution is perfect, and if you see complaints against them, look for patterns. When you're done, ask yourself: "Can I sleep at night?"

If you can sleep at night, and all you've done is a quick Google search, and everything looks fine, and you feel pretty comfortable with this, that's fine. If you are sitting there, and you are losing sleep, or you are not investing because you don't trust these places, that's when I'd say, do your homework, and do a thorough check.

These financial institutions all have their own controversies. If there is a pattern of deception or unethical practices, steer clear. And you can also call them directly with questions.

Where do I start?

The sooner you start saving, the bigger your financial gains. Of course, life can get in the way, and doing your research takes time. But if you need help getting started, you can turn to a financial planner, advisor, or coach.

I obviously realize that we're all busy individuals, and sometimes the best path isn't always the one you take. Still, it's better to do something rather than nothing.

What if you just don't have enough to start saving?

If you need the money to survive today, then hold off saving. If you're struggling to pay for your necessary costs, it's okay to recognize that you might not be in the best financial situation to put money away. This is especially true right now, when we have folks who are unemployed because of Coronavirus. I think it is perfectly fine to say, "At this point, I need to pay for the things that I need to survive today."

But if you do have disposable income, make sure some of it goes to retirement. It doesn't have to be all of it, but it shouldn't be *none* of it.

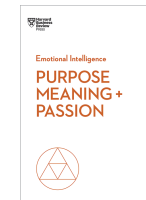
In Conclusion

My conversation with Megan brought me some much-needed clarity. If there are any first-time "savers" out there reading this, I hope you feel a little bit more prepared to start saving. If you're wondering just how much you need to save to make an impact, [Megan wrote about that too](#).

After talking with Megan, I tried to relay her points to my sister, but she didn't really care. And I totally empathize with that. The world is very different now. We are still living through a pandemic, and the future is uncertain. Next month is uncertain. *Tomorrow* is uncertain. But my sister still has time. I just hope she doesn't wait as long as I did to start.

Editor's Note: The opinions expressed here are for general informational purposes only. It is important to do your own research and analysis before

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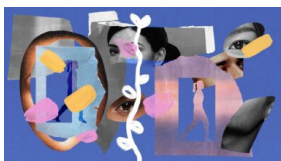


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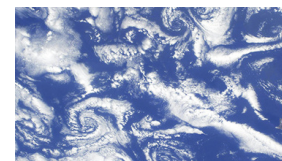
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