What Is Retirement For Millennials?

By: Vin Heney

Millennials were born sometime between the early 1980s and the mid-1990s. That means they're now somewhere between their early 20s and their mid-30s. So they can be forgiven if retirement isn't the first thing on their minds. And in reality, it shouldn't be; they're busy figuring out careers, paying down student loans, exploring the world, and starting families. To most millennials, retirement probably feels like a foreign concept that's decades away.

And it *is* decades away, but as with all things finance-related, a little planning goes a long way. The best time to start that planning? Yesterday. The second best time? Today.

So let's take a look at the three things that millennials should know about retirement : (1) it's inevitable, (2) it's unsecured, and (3) it's possible.

It's inevitable

Like with old age itself, there's no escaping retirement. A day will come when millennials get called old farts by their grandchildren. And millennials will be the ones out of touch with the latest technology — go figure. Like it or not, this day is coming. And when it does, millennials (those old buggers) will be either wishing they'd planned better, or thanking themselves for planning appropriately. Make sure you're the latter.

It's unsecured

Unlike with their parents' generation, retirement isn't mapped out for millennials. Pensions and RRSP matching programs are increasingly rare. And if you're banking on the Canadian Pension Plan, you may be in for a rude awakening: the average monthly amount collected by new beneficiaries as of March 2018 was $666.56. That's not exactly snowbird money.

So the bad news is millennials are left to figure things out on their own, without the security that their parents enjoyed. But the good news planning for a comfortable retirement is very possible.

It's possible

OK, now that the doom and gloom is out of the way, here's the bright side: successful retirement planning is manageable for millennials. Time is on your side, and by following a few basic principles, your golden years will be golden indeed. Here are four pieces of advice to keep in mind when building your nest egg.

Start now. Once all of your 'expensive debt' is gone — i.e. anything that's costing you 6% or more — it's time to start saving. And the sooner you start putting money away, not only the more you'll contribute, but the longer it has to mature. It's important that millennials understand the time value of money. Compound interest — the long-term growth momentum that happens when you accrue interest on interest — is a powerful force. So powerful, in fact, it's almost impossible to 'out save' compound interest by catching up on your contributions later on. For example, if you contribute $5,000 annually to a TFSA earning 5% interest for 40 years, you'd have around $640,000 ($440,000 of which would be from interest). However, if started just 10 years later, and contributed the same amount (~$200,000), you'd have only $465,000 ($265,000 from interest). Starting ten years earlier earns you an extra $175,000 on the same amount of contributions. That's the time value of money.

Pay yourself first. It's the most popular piece of advice that we've taken from *The Wealthy Barber,* and it's popular for good reason. By putting away at least 10% of every dollar you take home — before any other payments or contributions come out — you'll be in good shape down the road, no matter how much you earn. You'll hardly miss the 10%, especially if you automate the contributions, but you'll sure notice it down the road. And really, if you're not moving the needle at least a little bit with each paycheque, then ask yourself why you're selling your time.

Keep fees low. Let me start by saying this, if you're saving, you're ahead of the game, even if you're paying relatively high fees to a big bank. But by digging just a little deeper, you can save even more of that hard earned money. I recommend ditching the high fees that banks charge to manage your investments — usually around 2-3% — and instead opting for a robo-advisor that charges closer to 0.5%. It's a small percentage, but over many years, it adds up. Always try to keep as much of your money as possible — the banks have enough. As for what to invest in, it depends on who you ask. My advice is once you've accumulated a good chunk of savings, map out a retirement plan with an objective advisor who's not trying to sell you anything, like a fee-only financial planner.

Learn to delay gratification. There's a saying I like: you're always borrowing from your future self. I like it because it challenges me. Case in point, I'm in the market for a new car, and I admit that I enjoy the odd creature comfort, but is an extra $5,000 for leather seats really worth it? Because when you take into account compound interest at 5% for 40 years, that's like taking $35,000 directly out of the hands of 75-year old me. And I think we can all agree that no leather seats are worth that. The point here isn't to torture yourself with every purchase, put rather to remember that good savings habits require mindful spending. If you need something, and you've saved for it, then buy it and feel good about it. But if you can go without, you may thank yourself down the road.