Thinking about Retirement

In your 20s and 30s, you possess one of the most valuable assets to retiring rich — time. Contributions to a retirement account at this age will have decades of compounded growth. In fact, even minor contributions in your 20s and 30s can have a higher payout in retirement than if you were to make larger contributions in your 40s and 50s.

Luckily for most 20- and 30-year-olds, your minor contributions (which can potentially help you reach $1 million or more by the time you retire) don't even have to come out of your pocket, With resources like employer matches on 401(k) contributions, your small contributions can pay big in the long run.

Here are a few other ideas for this era of your life.

1. Increase your financial literacy

The one investment that is crucial for someone in their 20s and 30s is education and financial literacy. Take a class, earn a degree in, or engage in a professional opportunity that will help you gain financial skills and knowledge. Not only will it give your resume a competitive edge, but it will also contribute to your preparations for a secure retirement. It's okay for the topics to be confusing at first. Financial know-how is not something all young adults have access to, therefore motivation is needed to learn about it through books, articles or by attending financial seminars. Did you know that more than one-third of companies offer employees access to financial advisors who can help them in their investments and wealth management planning?

The more knowledge you have, the easier it will be to make solid, informed decisions. You will understand the different types of financial strategies and be able to engage in age-appropriate investment risk. Financial strategies based on tax-deferred earning growth (triple compounding) are great since they pay interest on the principal, interest on the interest, and interest on the taxes you would pay if your investment income was taxed annually. The more time you have money in these long-term investments, the more your contributions — no matter how small — can snowball into a sizable amount.

2. Make a plan where saving for retirement is a priority

Although rent, student-loan debt and living expenses may make it seem impossible to save for retirement, a little does truly go a long way. The ideal savings rate would be about 10%-15% of your annual pay for retirement, but if that seems challenging, start small and work your way up saving more each month. Try to make saving automatic so that the money does not even reach your bank account from your paycheck — it's sent directly to a retirement account.

According to a survey conducted last year by the Employee Benefit Research Institute, less than half of Americans have tried to calculate how much they will need to save for retirement. Having a plan is crucial, especially in your 20s and 30s where contributions to your retirement savings accounts can grow compounded and tax-free.

3. Enroll in your employer's 401(k) plan under the right circumstances

Most companies will offer retirement plans like a 401(k) — and many will actually match a percentage if not all of your contributions. That is essentially free money just for saving. Even if the matching rate is low, it still may offer you at least an immediate 25% return on your investment, a guarantee you can't find elsewhere. Once again, this money grows tax-free in the account.

4. Pay off student loans

Don't rush to pay your federal student loan off. The interest rate — which ranges from 3.4%-6.8% for loans given after 2006 is set and relatively low in comparison with private student loans. In addition, you can deduct up to $2,500 of your interest expense from your taxes.

5. Resist withdrawals or cash outs on retirement accounts

If you choose to leave a job, you don't have to cash it out and get the amount in a check. Your 401(k) can stay with your previous employer; you can roll it into an IRA, or roll it into a new employer's plan if they offer any.

The most important thing is to stay committed. You may want the check from your 401(k) from your employer. However, employers withhold 20% of the amount you withdraw to pay for the income taxes. And as a person in their 20s and 30s, many investments may penalize you for withdrawing your retirement savings early, by causing you to lose principal, interest, tax benefits, or have to pay withdrawal fees since you are not 55 or older. That's growth and income you are forfeiting, up to 67% of your income earned just through early withdrawal, as was found by the Employee Benefit Research Institute.

These are just a few of the many suggestions that can help to set up your retirement well before the time itself comes.

References:

Market Watch: http://www.marketwatch.com/story/6-things-you-can-do-in-your-20s-and-30s-to-retire-wealthier-2016-06-28