

Rodger on Retirement

Retirement shortfalls begin with expensive coffee

He grew up in the housing projects of Brooklyn and became a billionaire by selling you coffee. My friend Carol loves his coffee. Howard has been super successful at placing a Starbucks within spitting distance of a majority of urban Americans. From my office building in downtown Washington, DC, I can walk to no less than five of his coffee shops. Each morning at 7:15, Carol proceeds through a Starbucks drive-through and orders a Venti ("large" in Starbucks language) White Chocolate Mocha. At \$4.65, I could hardly call it a cup of coffee. Carol is indifferent to the expense; it makes her smile, so she hardly thinks about it.

I love coffee, too. Every couple of months, I drive to a small, local coffee roasting facility and buy my favorite mocha java whole beans and grind them at home. My coffee is just as delicious as Carol's, but costs about \$4.45 less per mug. I smile knowing that I can enjoy my favorite coffee and not make Howard Schultz richer. I'm sure he is a nice fellow, but he does not need hard-earned Friedman money.

Knowing that Carol struggles to make ends meet, I thought I would help her to better appreciate some of her spending patterns. Carol was not interested when I presented her with some back-of-the-envelope math about how much her daily treat was costing her. Shown below is what I wrote out for Carol:

$$\begin{aligned} & \$4.65 \times 7 \text{ days per week} = \$32.55 \\ & \text{One year of this} = \$1,692.60 \\ & \text{Compound that amount contributed to a ROTH IRA for the next 10 years at 8\% return} \\ & \quad = \underline{\$24,519.96} \end{aligned}$$

Frankly, I would not mind an extra \$ 24,519.96 in my IRA account. My coffee is 95% cheaper than hers, and I throw the money saved into my IRA account to compound for my retirement. I would love for Carol to call me up and tell me that she has bid a fond farewell to Howard, but I will not hold my breath. Behaviors become ingrained over time, and her daily coffee run is now as normal to her as brushing her teeth.

Understand, I am not a cheap penny-pinching fellow. Rather, I spend intelligently. I am a firm believer in the maxim: *The more you spend, the less wealth you have*. On balance, I would rather have more wealth than less wealth, so I spend accordingly.

If any of this rings true for you, try this simple exercise: carry a small notepad with you for the next week and jot down every dollar you spend – cash, coins, checks and credit cards. Do not leave anything out. Tally it up at the end of the week. How much of the total was intelligent spending and how much was money thrown down the drain? You can teach yourself a heck of a lesson if you just pay attention.

**This is a hypothetical illustration and is not intended to reflect the actual performance of any particular security or account. Future performance cannot be guaranteed and investment yields will fluctuate with market conditions.*