Rodger on Retirement

Do You Need an App to Ensure Financial Discipline?

At a recent gathering, I observed two couples, both with new cell phones in hand, comparing the cuteness of their emojis. For those readers who are at a loss to understand the last sentence, let me explain. Emojis are those cute little symbols and images that people attach to text messages and E-mails. They spent the better part of 30 minutes showing each other how to download apps that contain additional images so that they can send even more cute messages. I couldn't help but wonder why they felt this was an important or rational subject of discussion.

I overheard how one had just purchased her new phone at a big box electronic store and "only pays" $35.42 per month. She sheepishly admitted that the charges continued for 24 months, and the choice was between funding her IRA and buying the phone. She related that she could put money in the IRA next year instead. Now, I don't pretend to be a math whiz, but the last time I multiplied $35.42 by 24, I arrived at slightly more than $850. That is $850 for a new phone so that she could send cute text messages and pictures featuring the latest emojis. Evidently, her old phone was not up to the task. I couldn't help but wonder what her IRA statement looked like!

Too bad there is no app to tell her that maintaining this kind of spending pattern on frivolous items will likely severely damage any hope of a financially secure retirement. Financial discipline is needed to ensure we do not make poor financial decisions. One of the most important aspects of investing for a secure future retirement is to invest early. This means that the more time funds are left to grow and compound, the better. The time value of money is vitally important. By delaying investments in favor of spending on the here and now, less money is available to grow for the future.

Here is a compelling example of the true power of deciding to save early, as well as the power of compounding:

Barbara decides to begin saving for retirement at age 20. She arranges her finances so that she saves $3,000 annually for the next 10 years. Barbara is earning 8% per year on her investments. She stops investing after 10 years at age 30.

Jonathan is very different from Barbara. He loves purchasing new things and never tires of buying the latest gadget. He decides to delay saving for retirement until he is age 30. Like Barbara, he invests

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$3,000 per year. However, he does this for 30 years. He is also earning an 8% return. At the end of 30 years, Jonathan stops contributing.

At age 60, Barbara’s retirement account balance is approximately $472,000. Remember, she invested only $30,000 and then stopped. Meanwhile, Jonathan’s retirement account balance grew to roughly $367,000 after investing $90,000 over 30 years. As you see, time matters and so does your mindset. Barbara invested one-third of what Jonathan invested, yet ended up with more than $100,000 additional dollars.

Would you rather emulate Barbara or Jonathan as a retirement investor? Do you need an app to form a conclusion? While there may be an app to compute the time value of money, you certainly don’t need one to determine who has taken greater personal responsibility for their future—Barbara!

