GRAnderson Wealth

Wisdom – not futility – of planning for retirement

General column version

August 2022

We have one future – so don't give up on it

By Gregory Anderson

When a local media outlet recently went looking for people who had given up on their retirement planning, the reporters had a pretty easy time of it. They didn't have to look far. Inflation, stock market declines and other global problems have frustrated people to the point of despair. One subject even described retirement as "an absolute fantasy."

I beg you not to throw up your hands the way some of the people in that article apparently have done. A positive mindset can be crucial and sometimes even self-fulfilling to successful retirement planning. Don't let the negative mindsets throw you off course.

We have had economic crises since the dawn of commerce, and these two truisms have always remained undisputed:

1. The "economy" has always survived.
2. People have always, inexorably graduated toward some form of retirement.

Examining perhaps the two most worrisome economic periods that this country endured – the Great Depression (1929 – 1939) and the Great Recession (2007 – 2009) – in both occasions we emerged to enjoy times of greater abundance and financial security. In contrast to the attitudes expressed by subjects of the recent Denver Post articles (in which people indicated they decided this was a bad time to invest in the future), the people who lived through the Great Depression and/or Great Recession realized significant financial gains when they adhered to basic investment strategies of "buying low."

Retirement for people who lived through those difficult times was NEVER the "absolute fantasy" described by the pessimist above.

We understand (and greatly sympathize) that people have less to invest during hard financial times. We are not pooh-poohing the devastation that high inflation rates can cause. But in a "down" environment such as the one we have now, investors can have a bigger impact on their portfolios with a smaller investment.

For example, let's say ABCD Corp. was selling in a "healthy" environment at $100 per share, and is now selling at $50 per share. Meanwhile, financial problems have forced you to re-budget the amount of money you can invest every month. Whereas you were investing $75 a month, you are down to $50. Comparatively, you are in excellent shape! You previously bought ¾ of a share of ABCD every month, but now you are buying a full share. With greater numbers of full shares of stock, you are also collecting greater amounts in dividends.

But wait! You don't even have $50 per month? That's okay! You should never entirely quit your contributions to a retirement effort. Let's say the ONLY thing you can do is give up that $6 beverage you bought yourself every Saturday night. That's $24 per month, or $288 per year. After five years, you have collected $1,440 for deposit into a retirement account (tax free!). In another 30 years, that $1,440 could EASILY be worth $25,125, assuming a very conservative 10% annual return. The average annual return on the S&P 500 is 10.7%, and in the 10-year span between 2011-2021, the average annual return was 13%.

You probably don't want to retire on $25,125 alone. The point is, that $25,125 is a bare minimum … so as the economy improves, and as your financial situation improves, so will your retirement preparation (especially if you have made contributions a habit). Retirees usually have three sources of retirement income: social security, employer's retirement plan (e.g. pension), plus personal savings. That personal savings enhancement to your retirement can represent the difference between a rather Spartan retirement or a somewhat comfortable one that includes a bit of travel and entertainment.

One of the subjects in the local media story asserted that there are no guarantees about the future, so why bother to commit to it? True! No guarantees. But it is the only future we have. Let's make it as attractive as possible.

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