Yes, Young Growing Families Can Save & Invest

It may seem like a tall order, but it can be accomplished.

Provided by *Benedict A. Mitchell Jr*

Plan to put yourself steps ahead of your peers. If you have a young, growing family, no doubt your to-do list is pretty long on any given day. Beyond today, you are probably working on another kind of to-do list for the long term. Where does “saving and investing” rank on that list?

For some families, it never quite ranks high enough – and it never becomes the priority it should become. Assorted financial pressures, sudden shifts in household needs, bad luck – they can all move “saving and investing” down the list. Even so, young families have planned to build wealth in the face of such stresses. You can follow their example. It is less an option than a necessity.

First step: put it into numbers. Most people have invested a little by the time they reach 30 or 35, and some have invested avidly. A plan is not always in place, however. The mission is simply to “make money” or “build wealth” for “the future.”

This is good, but also vague. How much money will you need to save by 65 to promote enough retirement income and to live comfortably? Are you on pace to build a retirement nest egg that large? How much risk do you feel comfortable tolerating as you invest? What kind of impact are investment fees and taxes having on your efforts?

A financial professional can help you arrive at answers to these questions, and others. He or she can help you define long-range retirement savings goals and project the amount of savings and income you may need to sustain your lifestyle as retirees. At that point, “the future” will seem more tangible and your wealth-building effort even more purposeful.

Second step: start today & never stop. If you have already started, congratulations! In getting an early start, you have taken advantage of a young investor’s greatest financial asset: time.

If you haven’t started saving and investing, you can do so now. It doesn’t take a huge lump sum to begin. Even if you defer $100 worth of salary into a retirement plan a month, you are putting a foot forward. See if you can allocate much more.

If you begin when you are young and keep at it, you will witness the awesome power of compounding as you build your retirement savings and net worth through the years.

Just how awesome is it? An example: let’s say you save $100 per month in an investment account for 20 years and the account returns a (hypothetical) 5% for you over those two decades. In 20 years under such conditions, your $100-a-month nest egg will not amount to $24,000 – it will work out to $41,011, which is 71% more! If you put in $200 a month, you wind up with a projected $82,022 off of the $24,000 in contributions! We aren’t factoring in account fees or market fluctuations, of course – but you get the picture. Stretched out to 30 years, a consistent $100-per-month contribution and a consistent 5% return project to $82,302; raise the monthly contribution to $200 and you get $164,604. These numbers factor in annual compounding; use daily compounding as the variable, and they grow a bit larger. So even if you set aside and invest a few twenties each month, you may still end up with appreciable retirement savings – and these are numbers for one retirement saver, there are two of you.[1]

What's that? You say you can't retire on $164,000 or less? You're absolutely right. You have to devote more than that to your effort. You may need a million or two – and if you plan ahead, you may very well generate it. Ownership of equity investments, real property, business or professional success – this can all help to position you and your family for a comfortable future, provided you keep good financial habits along the way and pay attention to taxes.

How do you find the balance? This is worth addressing – how do you balance saving and investing with attending to your family's immediate financial needs?

Bottom line, you have to find money to save and invest for your family's near-term and long-term goals. If it isn't on hand, you may find it by reducing certain household costs. Are you spending a lot of money on goods and services you want rather than need? Cut back on that kind of spending. Is credit card debt siphoning away dollars you should assign to saving and investing? Fix that financial leak and avoid paying with plastic whenever you can. Other young families are doing it, and yours can as well.

Vow to keep "paying yourself first" – maintain the consistency of your saving and investing effort. What is more important, saving for your child's college education or buying those season tickets? Who comes first in your life, your family or your gardener? You know the answer.

It has been done; it should be done. Stories abound of families that have built wealth out of comparative poverty. There are people who came to this country with little more than the clothes on their backs who have found prosperity; there are families (including single-parent households) who have been dealt a bad hand yet overcame long financial odds to gain affluence.

It all starts with belief – the belief that you can do it. Complement that belief with a plan and regular saving and investing, and you may find yourself much better off much sooner than you think.

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1 - bankrate.com/calculators/savings/compound-savings-calculator-tool.aspx [12/26/14]