Student name

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Course name

Date

Convincing a Peer to Save Money

Now that you’ve decided to try to help your boyfriend raise his daughter and the two of you are looking to make a better life for yourselves, it isn’t too early to start thinking about saving. You know I’ve been taking some classes on business and accounting lately and I think I can help you even though you’re both just getting a little more than minimum wage right now. Since you’re living with his parents and neither one of you have any major debt, your living expenses are low. Now is the perfect time to get started on your future. It may not seem like you can save all that much now, but because of the magic of compound interest growth and the possibility of gaining employer contributions, you can actually begin building a retirement package for yourself to protect you in later years while also working to save money to send your little girl to college.

If you start saving 15 percent of your income now, you will be able to retire at age 65 or 70 with a decent income to live on. That might seem like a lot to you, but let’s break it down. Your first concerns right now are not, of course, retirement. What you’re probably thinking is that you have decades to go before you’re ready to retire, you’ll be able to worry about that later. First, you want to save up to buy a house so you don’t have to live with the in-laws anymore. That’s understandable and you should put some of your earnings aside to accomplish those long-term goals. To achieve this, you should put five percent of your income away into a compound interest account. Doing this means that every year, the amount of interest you earn on your account each year continues to grow. Thus, the bank is helping you to save much more money than what you started with. For example, if you put $100 into an account that pays 10 percent interest and only added $16 to it each week, you would end up with $17,427, plenty to put down on a house, instead of the $9,680 you would have had without interest, not quite enough for that down payment (Investor.gov). Almost doubling your money without any extra effort may not seem like much to you over the course of 10 years, but it would make a lot of difference to me.

Now imagine that you were saving 10 percent of your income over a longer period of time, say the next 35 years - from now to your retirement. If you started your account with an initial $2000 (10 percent of your current yearly income), and had 10 percent withheld from every paycheck throughout your working life into an account with 10 percent compound interest, by the time you reach retirement age, you would have $472,498 saved to keep you comfortably retired (Investor.gov). Compared with the $55,760 you would have had without compound interest, the $200 or so that you'd put into savings each month seems like a small price to pay. Whether $472,498 for retirement is going to be enough for you is a difficult question to answer. According to Tim Parker (2014), one of the best rules of thumb for determining this is to have a replacement rate of 70% of your working income at the time of retirement. The formulas can get pretty lengthy and technical, but going for an average of $500,000 or so is a generally recommended number for people earning average incomes. However, there are ways you can boost it even beyond this.

In some jobs, you may be able to get the company to contribute to your special retirement account. Many companies offer contributions to 401(k) accounts, but not all of them let you know about it or offer it to all levels of employees. Most of the time, these are offered as part of a benefits package, so watch for it in your office job the next time they offer you a promotion.

“Most employers do it on a payroll basis, contributing a little bit with each paycheck, ‘matching’ the amount the employee saves out of each paycheck. A common formula is to matche 50% of employee contributions up to the first 6% of salary” (Ebeling, 2012). The more you earn, the more the company contributes. If you can’t get the benefits package yet, you can set up automatic withholding from your paycheck to be direct deposited into a separate individual retirement account (Brandon, 2014). Brandon has several other tips on accounts that could help your retirement picture. Since you never see the money, you don’t really miss it.

Now that you’re finally starting to get on your feet and moving into the whole being an adult thing, it’s a good time to establish the habits that will set you up for the rest of your life. Contributing just $200 of your current income to the right accounts now could help you achieve both a comfortable retirement for yourself and a home of your own within 10 years. Understanding how all this works can be complicated, but that doesn’t need to keep you from taking advantage of the possibilities life has to offer you. If you really want to take charge of your future, opening retirement accounts with compound interest is one of the best ways for you to accomplish it. Now is the best time, too, because the longer you wait, the more you’ll have to save in order to reach your goals.

Works Cited

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