# Best Retirement Advice I Received When I Was 10 Years Old

When I was ten, my grandfather – who was, at that time, a well-settled retiree,  shared some of the best retirement advice with me.  Although I didn't understand much at that time, I knew they were meant to benefit me sooner or later. They have stayed with me throughout my life, and as I grew older and learned more about finance and the importance of planning for the future, I realized how valuable his wisdom was.

Through this article, I will walk you through the pieces of advice that have proven to be most impactful in securing my financial future. Read on and discover why they are crucial to consider as you prepare for retirement.

## Start Saving Early

One of the best pieces of retirement advice that my grandfather shared was the importance of starting to save for retirement as early as possible. With the power of compounding interest, even small amounts of money saved early on can grow significantly over time. For example, if you start saving $200 per month for retirement from 25, you would have approximately $1,000,000 by the time you reach 67, assuming a 7% annual return on your investment.

Saving early allows you to take advantage of time, which is the most valuable asset when it comes to investing. The longer money is invested, the more potential there is for growth.

This concept is known as the time value of money.

Diversification is another crucial aspect of retirement planning. My grandfather emphasized the importance of spreading investments across various assets to mitigate risk. By diversifying, you can protect your retirement savings from the potential negative impact of a single poorly performing investment.

In addition to spreading investments across different asset classes, such as stocks, bonds, and real estate, it is also essential to diversify within each asset class. For example, investing in various stocks from different industries or regions can help reduce risk further.

Diversification is also directly proportional to your risk appetite. When you're young, until your 40s, you would be inherently willing to take more risks. Hence, your portfolio can have as high as 70% equity. However, as you age and security takes priority, debt and mutual funds should dominate your portfolio.

# Pay Yourself First

One effective strategy for ensuring consistent retirement savings is to automate the process. By setting up automatic contributions to a retirement account, you can eliminate the need for discipline and willpower to save consistently. This approach is known as the "pay yourself first" method and can be a powerful way to prioritize retirement savings.

Many employers offer automatic enrollment in retirement savings plans, such as 401(k) or 403(b) accounts. These employer-sponsored retirement savings plans allow employees to save and invest a portion of their paychecks before taxes are released.  Besides offering tax advantages, 401(k) and 403(b) can help grow your retirement savings over time.

Another significant benefit of employer-sponsored retirement plans is the potential for employer-matching contributions. Many employers offer to match employee contributions up to a certain percentage or amount. You can earn “free money” for your retirement savings by contributing enough to receive the full employer match.

For instance, you earn $50,000 annually, and your employer offers a 401(k) plan with a matching contribution of 100% up to 5% of your salary. In this scenario, you would be eligible for a maximum employer match of $2,500 per year (5% of $50,000).

Besides leveraging 401(k) or 403(b) accounts, you can set up automatic transfers from your bank accounts to individual retirement accounts (IRAs) or other investment accounts.

## Delay Social Security Benefits

Although it may be tempting to start collecting Social Security benefits as soon as one becomes eligible, waiting to claim can result in higher monthly benefits. For every year you delay claiming Social Security benefits beyond your full retirement age (which ranges from 65 to 67, depending on the year of birth), your benefits will increase by approximately 8% per year up to age 70.

By waiting to claim Social Security benefits, you can maximize your monthly benefits, which can provide a more substantial source of income during retirement. However, when deciding when to claim Social Security benefits, it is essential to consider personal circumstances, such as health and financial needs.

While Social Security can provide a foundation for retirement income, it is generally insufficient to cover an individual’s retirement expenses. The average Social Security retirement benefit in February 2023 was $1,782 per month. It is crucial

to have additional sources of retirement income, such as personal savings and investments, to ensure a comfortable retirement.

## Develop a Retirement Budget

Creating a realistic retirement budget is essential in preparing for a comfortable retirement. By estimating monthly expenses and comparing them to expected retirement income, you can identify potential shortfalls and make necessary adjustments.

When developing a retirement budget, it is essential to consider both fixed and variable expenses. Fixed expenses are those that will remain relatively constant, such as housing costs and insurance premiums. Variable expenses, on the other hand, may change based on lifestyle choices and can include expenses such as travel, dining out, and hobbies.

It is also crucial to factor in the potential for rising expenses due to inflation. Over time, the cost of goods and services tends to increase, which can impact the purchasing power of retirement income. Adjusting the retirement budget for inflation can help ensure a more accurate estimate of future expenses.

## Plan for Healthcare Costs

Healthcare is often one of the most significant expenses retirees face, and planning for these costs in advance is essential. According to a 2022 study, a 65-year-old couple retiring in 2021 can expect to spend approximately $300,000 on healthcare throughout their retirement, excluding long-term care expenses.

To help cover healthcare costs in retirement, you should consider options such as Medicare, supplemental insurance

policies, and health savings accounts (HSAs).

Moreover, long-term care planning is an often-overlooked aspect of retirement preparation. The U.S. Department of Health and Human Services estimates that 70% of individuals turning 65 will need some form of long-term care during their lifetime. Long-term care can be costly, with the average annual cost of a private room in a nursing home exceeding $100,000.

To help protect retirement savings from the potential financial burden of long-term care expenses, you should consider options such as long-term care insurance, hybrid life insurance policies with long-term care riders, or self-funding through dedicated savings and investments.

## Create an Emergency Fund

Building an emergency fund is an essential part of retirement planning. An emergency fund is a financial safety net, helping you cover unexpected expenses without dipping into your retirement savings. Financial experts typically recommend having three to six months’ worth of living expenses in an easily accessible, liquid account, such as a savings account or money market fund.

For example, if your monthly expenses are $3,000, you should aim to have at least $9,000 to $18,000 in your emergency fund. By having a well-funded emergency reserve, you can avoid the need to withdraw from your retirement accounts prematurely, preserving your nest egg for the future.

## Manage Debt Wisely

Effective debt management is crucial to successful retirement planning. High-interest debt, such as credit card debt, can hinder your ability to save and invest for retirement. By

paying off high-interest debt as quickly as possible, you can free up more money to allocate toward your retirement savings.

For instance, if you have $5,000 in credit card debt with an annual interest rate of 18%, you would pay approximately $900 in interest annually. You can redirect those interest payments toward your retirement savings by paying off this debt. This, in turn, may help increase your nest egg by thousands of dollars over time.

## Understand and Monitor Investment Fees

This might sound trivial, but investment fees can eat into a sizeable portion of your returns. People often overlook the cost of investments while choosing an asset class.

Even seemingly small fees can erode investment returns over time. For example, if you invest $100,000 in a mutual fund with a 1% fee, you would pay a $1,000 annual fee. Over 30 years, assuming a 7% annual return, the total amount paid in fees would be approximately $95,000.

By choosing low-cost investment options, such as index funds or exchange-traded funds (ETFs), you can reduce the fees you pay and potentially increase your retirement savings. Reviewing investment account statements regularly and being aware of any fees associated with the investments held is essential.

## Stay Flexible and Adapt

Retirement planning is not a one-time event but an ongoing process requiring regular evaluation and adjustment. As life circumstances, market conditions, and personal goals change, you must reassess and adjust your retirement strategy

accordingly. By staying flexible and adapting to new situations, you can ensure that your retirement plan remains on track and continues to meet your evolving needs and objectives.

For example, you have been diligently saving for retirement by contributing to your 401(k) plan and investing in a diversified portfolio. Your initial retirement goal is to accumulate $1,000,000 in savings by turning 65.

However, when you turn 50, you experience several significant life changes. First, you get a substantial salary hike. Second, you and your spouse decide to downsize your home, which results in lower housing expenses. Finally, due to changing family circumstances, your expected financial responsibilities for your adult children's education decrease.

These changes present new opportunities to reassess and adjust your retirement strategy. With your increased salary and lower expenses, you may now have the capacity to contribute more to your 401(k) plan. This will potentially allow you to reach your retirement goal sooner or accumulate a larger nest egg.

Besides the changes in personal circumstances, fluctuations in market conditions can also impact your retirement planning. For instance,  there is a prolonged economic downturn, and your investment portfolio declines in value. In this case, you may need to reevaluate your retirement timeline or adjust your investment strategy to ensure that you are always on track.

## Start Now!

The retirement advice I received when I was just 10 has proven timeless and invaluable. Besides following the pearls of wisdom shared above, it is essential to consider personal circumstances and consult a financial professional to develop a customized retirement strategy that precisely meets your

financial needs. It’s never too early or too late to begin planning for retirement. By taking a proactive approach to retirement planning, you can enjoy peace of mind as you know you are well-prepared for your golden years.

To help ensure that retirement savings last, developing a withdrawal strategy that balances the need for income with the desire to preserve savings is essential. One commonly recommended strategy is the 4% rule, which suggests withdrawing 4% of the initial retirement portfolio value each year, adjusted for inflation. This approach is designed to help minimize the risk of quickly depleting savings.

# FAQs

## 1. How Much Money Should I Save For Retirement?

The amount an individual needs to save for retirement depends on various factors, such as desired lifestyle, expected expenses, and anticipated sources of retirement income. A common rule of thumb is to aim to replace 70-80% of pre-retirement income. However, it is essential to consider personal circumstances and preferences when determining an appropriate retirement savings goal.

## 2. When Should I Start Planning For Retirement?

It is never too early to start planning for retirement. The sooner you start saving and investing, the more time your money has to grow, thanks to the power of compounding interest! Additionally, an early start offers the opportunity to experiment with different saving and investment strategies, learn from experience, and adjust as required.

This flexibility enables you to adapt to life changes, market

fluctuations, and evolving financial goals. Consequently, you cherish an increased chance of achieving a comfortable and financially secure retirement.

## 3. What Is The Best Way To Invest For Retirement?

There is no one-size-fits-all answer to this question. The best investment strategy depends on your risk tolerance, investment goals, and time horizon. Generally, a diversified investment portfolio that includes a mix of stocks, bonds, and other asset classes is recommended for long-term retirement savings.

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