Episode #343: How to Avoid Missing Out on a Secure Retirement

Hey there, my name is Kevin Nuber. Thank you so much for watching today's Money Script Monday video, where I'm going to be talking about how you can avoid missing out on securing your guaranteed income and retirement.

The motivation for this video was for two reasons. The first reason was something that happened to me a couple of weeks ago. I was hanging out with a couple of friends, and these were friends from high school, so this is like 25 years ago. We were talking about how we all went to the same school, we all ended up going to college, we got college degrees. Here we are, and nobody taught us during that education how to actually do some of the most basic, fundamental things about retirement, like how to save, how 401Ks work, how much you need to save, or things like credit cards and mortgages. These are all things you just have to learn on your own.

We all went to the same school, and we all took the same classes in high school, and we all talked about this one class that we took in 10th grade with the exact same teacher. All of us remember this one lesson, and in fact, this is the only lesson that I remember from the entire year about money. I want to share that lesson with everybody today because if it made that impact on me, then perhaps it will have that same impact on you.

The lesson is this: What is the cost of choosing to wait to save for retirement? He said that there's a cost. He said that if everybody wants in this room—I'm 16 at the time—if everybody wants $1,000,000 on the day that you retire, then all you have to do is something easy. Now, to me, as a 16-year-old, $1,000,000 is this unfathomable number. It's a number that would solve all my problems if I just had $1,000,000, right? He said all you have to do is, if you earn a 7% rate return, at age 25, you just need to start saving $390.00 a month. That's it.

Now, to me back then, that was still a lot of money, but this was something attainable, $390.00 a month is something that I could do. But he said this is not the point of the lesson. The point of the lesson is to say, what if you don't do it at age 25? He said that if you wait until age 35, you're gonna have to start saving $824.00 a month. That's double the amount of money, more than double the amount. Then he said if you then choose to wait till age 45, it would be $1900 a month, again more than double the amount by waiting 10 years. Lastly, he said that if you choose to wait until age 55, you're going to have to start saving $5,600 a month.

The reason why this lesson stuck with me was because this is the only number that I could wrap my head around, and thankfully, because of this lesson, when I was 24 and I got my first real job, I started saving as much money as I possibly could.

Everybody watching this video is probably thinking one of two things. One is, you might be grateful that somebody taught you the same lesson at a young age and you started saving at a young age. But you might be in the second category where nobody taught you this, or perhaps you just didn't have the ability to save at a young age, and now you find yourself at one of these latter ages trying to catch up for retirement. The truth is, most people actually don't start saving in any meaningful way for retirement until well after age 35. I suspect that most people watching fall into that category.

There is a cost of waiting, but what I want to say today—and this is the second reason why I want to shoot this video—is that today, everybody watching is presented with a very unique opportunity. Today, we're potentially at the highest interest rates that we might see in the next 5, 10, twenty years, I have no idea. We have this opportunity right now to allow the high interest rate to help us try to catch up on some of this retirement.

To give you an example of the impact that interest rates can have on retirement, I want to back up a few years and talk about three or four years ago when interest rates were the lowest they ever were. When interest rates are low, it's not a good time to use that money for retirement, but it is a good time to refinance your mortgage or to get a mortgage. Personally, I have a mortgage. If you're watching this video, I'm sure you refinanced your mortgage a few years ago. I'm paying 2.6% on a 30-year mortgage, and today interest rates on a mortgage are 7%. Think of all the money that I'm saving on my mortgage and money that you're saving on your mortgage because you did not wait to miss out on the low-interest rates.

Well, today the inverse is true. Interest rates are high. It might not be a good time for a mortgage, but it's a fantastic time to start taking some money and securing your retirement. If you don't do it now, you could potentially miss out on locking in this really high interest rate for the rest of your life.

Here's an example of just how impactful the interest rates are today, and I'm going to incorporate that into what happens if you choose to wait 5 or 10 years to start saving. Let's say that you have the ability to put money into an annuity to give yourself a guaranteed income in the future. This would be like how Social Security is going to give you a guaranteed income in the future or how a pension might give you a guaranteed income in the future. We all want more Social Security, or we all want more pensions. An annuity is a way for you to do that.

Let's say that today you're at age 55, and you have $100,000 of capital that you can put to work. If you were to wait, put that in, and wait 10 years before you turn on the income at age 65, your guaranteed income would be $15,436. That's more than $1,000 a month of income. This is a 15% return on your money every single year in the form of an income stream—guaranteed. That's the impact of these high interest rates.

But let's say that you don't do it today. Let's assume the interest rates don't change, let's say they stay high. Instead, you do it at age 60, so you wait five years. You would then have to put $137,000 of capital to get the same exact amount of income if you were to wait five years at that point to age 65. But if you wait till age 65, and you waited another ten years, you'd have to use $196,000 of capital to put into an annuity to draw on the income immediately at age 65 to get the same $15,000 of income.

You can see that today, by waiting 10 years, you essentially would have to double the amount of money that you have to put to work in order to secure income in retirement. Now, you might say, "Kevin, I don't want to do this. What I want to do is I just want to take my $100,000 and go invest it somewhere, earn a rate of return, and then in the future I can just guarantee my income in retirement." But in order for you to take $100,000 and grow it in 10 years to $196,000, you'd have to earn a 7% rate of return on your money.

Essentially, it's like you're able to put your money to work and grow it at a rate as if you're earning a 7% return on your money, and you can lock that in today—completely guaranteed. Even if interest rates go down in the future, you're still locking in this high interest.

I hope everybody understands this lesson because many of the people, as I mentioned, might be in this situation where they're trying to catch up on retirement. You might have already experienced this cost of waiting and waited too long to start saving, and because interest rates are as high as they've ever been, you have this opportunity to lock it in at this really high rate. Once again, you're in this exact same situation where you can lock in this rate, put your money to work today, and avoid the trap of having to make it up in the future for real.

Thank you for watching the video, and hopefully, everybody understands how they can avoid missing out on securing their guaranteed income in retirement. Thank you.