<u>Audio Lesson #8 – Why we must save</u>

It's not a hill, it's a mountain
As you start out the climb…

Hello. My name is Jeff Tyburski. Welcome to my 8th in a series of audio lessons. I teach financial literacy with a focus on helping you save money. My focus *so far* has been on ensuring you are *in a position* to save. Sessions 2-4 went deep into helping you avoid excessive student debt. Sessions 5-7 went deep into helping you get and hold a good job and be able to grow your income. Avoiding debt and ensuring you remain employable with growing income are critical *preconditions* for saving and building wealth. **Now it is time for saving and building wealth to be our exclusive focus. By the end of this, and the last two sessions, you will be financially literate: In *this* session we focus on WHY we must save. The next session covers How to save. The last session addresses WHAT to do with savings**

Will you be ready for the future? It's a complex question because you can come at it from multiple perspectives: intellectually, physically, emotionally, spiritually. My perspective, of course, is financially. **Will you be ready, financially, for the future?** …for all of the events and milestones that lie ahead in life. **The first thought that comes to my head is that the only way to be ready is if you think ahead *and plan*.**

Let's talk about planning. A tragedy happened while I was working on this. Notre Dame Cathedral in Paris burned. I can't stop thinking about it. I share everyone's sadness. I feel bad for the loss of a notable monument (in its original form), to Paris, France, the Catholic Church, and humanity. My son studied a semester in Paris. We, like millions of tourists a year, walked through it. It was incredible, of course, as you'd expect for something that took almost 200 years to build. My sadness, however, quickly morphed into genuine frustration. The fire, or the fact that the fire got *so* out of control, *seems totally preventable* to me. Maybe I am just being my normal somewhat harsh and outspoken self, the black and white engineer, etc. I can't help but ask, where was the proactive *planning* to prevent this catastrophe?

Sure, hindsight is 20/20 but it seems to take only about a minute of hindsight to ask some simple yet powerful questions: Why was there such a slow response, with reports many fire trucks took two hours to arrive? Why did they struggle to pump water out of the adjacent river? Why was there no fire suppression system in the wooden attic structure (literally nicknamed *the forest* because of the 850-year-old timber that once occupied over 50 acres)? It just seems to me that for such an irreplaceable structure, which housed even more irreplaceable relics, that there would be multiple layers of preventative planning to ensure such a fire could *never* happen. *How about* fire stations located on the island right next to the church? How about fire brigades rigorously trained to combat a fire in such a unique structure? How about custom designed equipment to aid in firefighting in the high reaches of a gothic church? How about pre-staged pumping equipment by the river or water tanks to ensure an immediate initial response when any fire is still small? How about extra on-site monitoring during renovation and construction activity? *As you can see, I am a bit worked up*. Perhaps I am projecting, and I see Notre Dame as representative of a broader problem with governments, businesses, organizations, families, and individuals…we don't plan and prepare enough, we just mostly react.

Let's circle back to financial literacy. How do we plan and prepare for the future so we can take care of ourselves and our children, give something back to others, and not be dependent on others when we are old? *The answer* is we save money *today*!

There are three critical reasons why we *must* save:

1. We have many **future financial needs** over multiple time horizons.
2. It is **increasingly our responsibility** to provide for our family's future.
3. **money can grow**.

We will go deeper into all three of these reasons why we must save but first I must emphasize that the fact that money can grow is not to be viewed merely as a bonus or a luxury. What you will find, and what many people don't realize, is that **you *need* your money to grow**. You need the power of compounding because it is unlikely you can set aside enough savings for all future financial needs. And to fully benefit from compounding, you should start saving when you are young!

Let's expand on why we must save, first, for future financial needs…

There are so many future needs. It is a bit intimidating to list them all.

- You should have an **emergency fund**, in case, for instance, you lose your job. To size the emergency fund, think of a few months of *basic* needs.

- You should always be setting money aside for **infrequent bills** like semi-annual car insurance and school taxes. You have to be ready for them when they come due.

- There may be **some higher interest rate debt you want to prioritize and pay back *early***, like some student loans or credit card debt. Frankly, I hope you never have credit card debt, *ever*!

- Of course, you must plan to fund **life's many major events** over the **short, medium, and long-term**. Some of these are exciting bucket list items: a vacation, a wedding, a new car, or your first house. Others are daunting long-term responsibilities like saving for your kids to go to college and your retirement.

It is valuable to understand that your saving goals span multiple time horizons. The gratification, and feeling of accomplishment, of achieving near-term goals can propel you on to eventually meet the long-term goals too.

Moving on, and expanding on the second reason why we must save…It is Increasingly Our Responsibility

Why is this the case these days?

- For one, **we are living longer.** A longer life expectancy raises the anxious question, "Will I outlive my money?"
- Also, **fewer people have a pension coming compared to when we were more of a unionized manufacturing economy**. Thus, we must save for our own retirements.

- And looking down the road, **social security alone will simply not provide enough** to live the life you are used to, and very long term, **its viability, in its current form, is in doubt**.
- We are also **paying more of our healthcare costs out-of-pocket today.**
- Lastly, **the financial world is getting increasingly complex** and competitive. Even though there are many professionals available to help, you need a fair amount of basic knowledge to understand *their* language and to be able to make good decisions.

Continuing along, we have many future financial needs, and it is increasingly our responsibility to fund those needs …now the third reason why we must save… Money that is **set aside can be put to work *and grow*.**

Money can grow because of the power of compounding. Einstein called compounding interest the eighth wonder of the world. Save, then let the mathematical magic of compounding interest take care of your future.

What exactly is compounding? Think "interest on interest". Your initial sum earns a return, then, in subsequent periods both your initial sum and the interest earns a return. **Your money makes more money!**

I encourage you to visualize the power of compounding interest. Let's use a reasonably realistic investment return assumption, 7% per year. Growing at 7% per year, money can *double* in about 10 years. Start saving in your 20s and you may get an *extra doubling* compared to someone who starts saving later. Think of that, an extra doubling; now that is money working *for* you**.**

$X save by age 30 can = about 2X by 40, 4X by 50, 8X by 60!

The amount of money you have is not just growing, it is accelerating.

Saving money is the first step to building wealth. Compounding drives the growth that builds wealth.

If you save $100/month in your 20s and invest it as you go and it grows at 7% a year until you are 60, you will amass over $125,000! But if you start saving late, in your 50s, the same effort, $100/mo. for 10 years, will only grow to $16000.

This illustration should hammer home, hopefully emphatically, the power of compounding and the benefit of starting at a young age. The younger you start saving, the more years or *decades* your money has to work for you**. Start saving young because the math is in your favor and to form good habits early in life.**

To wrap up, let's reiterate, you NEED Money to Compound!

It is exciting to think of money working *for* you, compounding and growing! **But you must remember a critical point: you actually NEED the compounding.** Unless you have unique earning power (or win the lottery), your future financial needs will likely exceed what you can save and set aside. So again, you need your money to grow, and the earlier you start saving and compounding, the more it can grow. Saving earlier is also good because growth is rarely in a straight line. There will be periodic losses. The earlier you start means more time to ride out and recover from fluctuations in returns. You also need money to grow because prices generally rise, called inflation, thus the purchasing power of a dollar typically diminishes over time.

Hopefully, seeing the power of money's growth potential will motivate you to want to *live* a lifestyle focused on saving**. Next,** I move from teaching *why* we must save, to covering ***how* to save!**