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Start saving - early and often

It's becoming ever more important for people to begin building up their retirement funds when they are young.

By Rebecca Carroll
For The Inquirer

You've just landed your first full-time job. What are you going to do with that paycheck?

Will you splurge on the new car you've had your eye on? Or will you put something away for retirement?

As traditional sources of retirement income become less certain, it becomes ever more important for people to start saving for retirement when they are young.

"Every penny you set aside young can grow for 40 years," said Olivia Mitchell, a professor in the department of insurance and risk management at the Wharton School of the University of Pennsylvania, and director of the Pension Research Council. "If you wait until you're in your 50s, there's only a few years left."

So impressive are the effects of compounding that someone who starts saving for retirement at age 25 and stops new investments at age 35 will have accumulated more by age 65 than someone who starts at 35 and invests for 30 years.

Even before Shawn Sweeney, 26, got his first full-time job, he was starting to think about retirement.

Sweeney, vice president of Remington Financial Group Inc., a Philadelphia company that finances commercial real estate, got a master's in business administration from Temple University's Fox School of Business and started working for Remington in January 2005.

He is not eligible for a 401(k) plan. Instead, he says, he contributes the maximum allowed to his IRA. Maximums for 2006 are \$4,000 for both traditional and Roth IRAs, or \$5,000 for people over 50.

For those who are not as disciplined, Sweeney suggests having money automatically deducted from an account and set aside for retirement.

Another quick solution is to invest a percentage of any pay increase toward retirement. "You won't be missing it," said Sweeney, a Manayunk resident who hopes to retire at age 55, "because you never had it."

For some, though, that may be easier said than done. An increasing number of college students are graduating with significant debt. According to the Project on Student Debt, a nonprofit advocacy group, in the last decade the average debt for a college graduate has climbed 50 percent.

As a result, said Lewis Mandell, a professor of finance and managerial economics at the State University of New York in Buffalo, recent graduates probably do not think enough about retirement.

Mandell advises that they tell themselves, "I can either have steak tonight and dog food when I'm 65, or I could have spaghetti tonight and spaghetti when I'm 65."

Saving for retirement is one of the last things on Sarah Piddington's mind. For Piddington, 24, who earned an M.B.A. from Rowan University's Rohrer College of Business last May, retirement "will become a higher priority once we get settled down."

Both Piddington, a project manager at Rohrer, and her husband, Josh, entered the workforce less than a year ago. Instead of putting additional money aside for retirement, which is about 40 years away, she says she is more concerned about putting a down payment on a house.

Settling in to a new life takes time, said the Glassboro, Gloucester County, resident. "You need time to get your finances in order. You're moving out from your parents' home and are starting to pay bills on a monthly basis," she said.

Piddington puts aside the bare minimum for retirement, through Rowan's Alternative Benefits Program. She must put at least 5 percent of her income - about \$2,300 a year - into this account, and she cannot withdraw any for the first year.

She says she will eventually put money into different retirement accounts.

Like Piddington, Christopher George, 23, is not focusing on saving for retirement quite yet.

"I'm saving to get married," the copy editor for the Star-Ledger in Newark, N.J., said. "I've got my priorities. What happens in a few months is more important than a few decades."

After earning an undergraduate degree last May from Wharton, George realized that his plan to save for retirement would have to change.

"I actually planned on starting an IRA around this time," he said. "But since I graduated, I was paying off a new car, which I needed after graduation. I started to save to move into my own place, and then all of a sudden I was engaged, so I guess the whole retirement thing got placed on hold."

Once he gets married and gets his finances in order, he plans to put money in an IRA.

"I really want to get that started," he said, "even if it's just a little bit."