FINANCIAL INSIGHTS BLOG

BUDGETING | SAVING & INVESTING | THE ECONOMY

Can You Afford to Retire in Your 30s?

We have all heard these tidbits about saving:

- *By the time you are 40, you should have three (3) times your annual salary saved.*
- *Have at least three (3) months' salary in your emergency account.*
- *Put away at least ten percent (10%) of your earnings towards retirement.*

But what are the best sayings we've heard about retirement? This sticks out, "retirement is a personal journey, shaped by lifestyle choices, aspirations, and individual circumstances." To retire in your 30s, understanding your specific needs and goals is crucial. We will explore important things you need to know in your journey toward a successful retirement.

The Changing Retirement Landscape

Until about the 1980s most public servants in The Bahamas could rely on their defined benefit pension plan as their retirement plan. Move forward to the 2020s and we have an underfunded social security net, with payouts that may not be sufficient for retirement. That is, most government and private employee pension plans will not be sufficient to live off of in retirement, even if living simply. Currently, most persons supplement their income with personal savings and investments. The Bahamas is not alone in this shift. Retirement trends are changing globally. More people want to be financially and physically independent. We are also living longer.

With the landscape evolving so significantly, more people are contemplating early retirement in their 30s driven by a desire for financial independence. We must also recognize the unique challenges faced by the younger generation including:

- Real Estate/Housing Costs trending upwards quickly.
- Technology and Volatility (uncertainty) in the Stock Markets
- Cost of Living/Inflation Trends

As people consider retirement and new trends come about - like remote work, mini-retirement, minimalism and adventures, a few questions will emerge – How can I pay for this?

How long can I survive without earning an income? Can I afford to stop working? Will I have to get a part-time job? What will I do to occupy my time? Is there anyone dependent on my income?

Managing Retirement Needs and Goals

During retirement, you will sacrifice saving and income. Each person's retirement will look different. It is unique and shaped by lifestyle choices, aspirations, and personal circumstances. To prepare yourself, consider your emotional and physical habits and needs:

Healthcare is expensive - It is not cheap at 30 and even more expensive in retirement if you must pay for it on your own. According to the Employee Benefit Research Institute (EBRI), "twenty-six percent of retirees say their spending on housing, health and medical expenses are higher than expected". Maintaining your physical health will also play a crucial role through exercise and diet.

You may live for a long time - When you retire, there's a 40-hour gap to fill each week, consider whether there are enough activities to keep you occupied physically and mentally during this time. Your mental wellbeing is also important, intellectual stimulation, maintaining strong social connections and networks and managing stress will be important to enjoy a higher quality of life.

Envision your retirement lifestyle and personal values – whether it involves travel, volunteering, completing a bucket list, pursuing hobbies, lifelong learning activities or even a second career. Translate these visions into workable objectives, and *set realistic expectations* for your expenditure estimates, sustaining your desired lifestyle, and the time you may spend in retirement.

Understand Debt in Retirement

Debt management plays a crucial role in retirement planning. Uncontrolled debt can undermine even the most well-thought-out retirement plans. One must be proactive and understand the uses of debt before retirement so that you do not experience challenges managing your debt. Prioritize understanding how debt fits into your retirement strategy and adopt measures to manage it effectively.

Debt doesn't have to stop or delay your plans, but it can affect your financial situation.

Credit Card Debt – Consider using your credit card only for emergencies.

Mortgage Debt – while fully paying this off is optimal, consider refinancing to consolidate any debts. You may also try to negotiate a lower rate.

Debt management can also be valuable in shaping your plan. It provides some wiggle room during retirement if you need to spend more money than you think on travel, renovations, relocation, lifestyle changes and inflation.

Maximize Your Savings Now

Whether you wish to retire now or in the future, saving and investing is a good idea. In your 20s, saving early and often is key, but it is still never too late, you can still reap benefits of later in life. Saving for retirement is no different that saving for a home or car.

Life is unpredictable, and unexpected expenses may arise. This is the easy part. Following a realistic budget and saving, however, takes dedication and discipline.

Additionally, time is a critical factor in retirement savings, with compounding interest significantly benefiting those who start early.

To maximize your savings, you can:

- Contribute to your current savings or pension plan or create a pension for yourself by opening an investment account, or individual retirement account.
- Automate your savings (you can't spend what you don't see); and rein in your spending.
- Consider delaying pension or National Insurance Board (NIB) retirement benefits, if feasible, to maximize your payout.
- Build an emergency fund (unexpected things **will** happen) to give your savings a solid foundation to stand on in the times of emergencies.

Investment Options

Generally, saving for retirement is a long-term affair, with a longer horizon perspective. But, even if you manage all your risks, there is no way to eliminate all of it. Boosting and diversifying your income can help maximize your earnings with:

- Real estate income
- Side business (hustle) and passive income ventures
- Part-time job

Diversifying your investments and/or earnings, with a good understanding for considering your risk tolerance and assets can contribute to a robust financial portfolio.

Assess your investment strategy and financial position regularly, and continually adjust it to align with changing goals and market conditions.

Retire in your 30s

Retiring in your 30s is an ambitious goal, but with careful planning, financial discipline, and strategic investments, it can be achievable. The key is to assess your financial health, set clear goals, manage debt effectively, maximize savings, and diversify income streams. Another important point would be to consider your time in retirement and the financial and non-financial aspects of it. Taking these steps will not only enhance your chances of retiring early but also contribute to a financially secure and fulfilling retirement lifestyle.

CFAL is here to help.

If you need additional help, feel free to reach out to us for a Financial Planning Session. Our Certified Financial Planners are here to assist you with your budgeting, saving, and investing needs.

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