

Planners lament lack of early investing

By Mark Thomton
Staff Writer

For young investors, the difference between beginning to invest in their 20s versus their 30s can mean hundreds of thousands of dollars in retirement years, but financial advisors say too few are listening to the statistics.

Now, with the future of Social Security uncertain and life expectancy growing longer, saving for retirement has become the top priority on many workers' minds.

However, even with statistics that demonstrate the benefits of investing early, many area financial experts are surprised by the lack of young investors.

"The statistics are scary," said Brandi Ruffalo, president of Business Development Company/Waterstone Financial Group in Schaumburg. "People aren't saving for retirement."

Ruffalo added that few young investors are seeking assistance or looking into investment plans.

"It is a way below average occurrence," she said.

Ryan Alvarez, financial advisor for MidAmerica Investment Services at MidAmerica Bank, sees a similar trend, and believes there are many different reasons for the lack of young investors.

"Most of them don't begin investing simply because they are young and don't feel they need to worry about that," he said. "Secondly, they think that they need thousands of dollars to invest and they are apprehensive about the negative press the market has received over the last few years."

On the contrary, a worker who begins investing early may have less taken from his check but eventually end up with as much as someone who begins investing later.

Alvarez cited the example of a 23-year-old who invests \$40 every other Friday over a 42-year period at an average 8 percent annual yield on the market.

"By the time the person has reached 65, which is the average retirement age, he will have accumulated \$341,726," he said. "If that person began at 35 with the same plan it would only come to \$127,239."

In order to match the person who began at 23, the 35-year-old would have to invest triple the amount to catch up, said Alvarez.

"When you invest early, you get growth on what you invested and what you grow," said Ruffalo. "You can start investing less the earlier you start."

However, Ruffalo believes that before an investor takes on the responsibility of setting his money aside, he should find the right advisor who can make decisions for him.

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"If it is not something you do everyday and you don't understand it, it is very difficult," said Ruffalo. "You need someone trained in this who can guide you into different mutual funds."

Because of the possible difficulties involved with investing, many advisors believe the easiest and smartest way for young workers to begin saving is to become involved with their company's 401k plan.

"Younger employees need to start participating in their companies 401(k) plan," said Art Littlefield, managing director for the Naperville-based FSG Financial Strategies and Solutions Group. "Some

companies match dollar for dollar on the first 2 to 4 percent of an annual salary, which is a 100 percent return rate."

A 401(k) has the benefit of taking pre-tax dollars and not paying income on any of it, he said.

"I recommend to go up to the full amount one can defer in a year," said Littlefield. "The limit for 2004 is \$13,000, and once you go beyond that, then put your money into a Roth IRA."

The difference between a 401(k) and a Roth IRA is that an investor has to pay income tax on the money he deposits into a Roth IRA, but when he takes it back out, he pays no taxes on the growth that has been accumulated, unlike a 401(k) plan.

The only problem with a Roth IRA is the need for discipline, said Littlefield.

"(A) 401(k) offers discipline of automatic deposits or withdrawals from a paycheck before it is issued. It cannot be spent because it is never paid directly to the employee," he said. "For a Roth IRA the employee must have the discipline to make the monthly deposits or have the money in the checking account for monthly automatic withdrawals for the IRA to reach the \$3,000 limit."

Mary Klingenberger, president of Harris Bank in Oakbrook Terrace and Glen Ellyn, agrees that 401(k) plans are important to start early and has seen a general increase by younger users.

"In light of not being sure what will happen with Social Security, it is important to carve out a full amount for retirement," she said. "Now we are seeing young folks saying that even if it means putting only \$25 away each pay check, it is worth it."

Still, a lot of people may be missing out on a genuine opportunity to secure their retirement at a young age.

"A lot of kids come in here and we show them the numbers and they are still not enthusiastic," said Alvarez. "This is not a generation of savers. There are too many unnecessary costs upfront today. You have the choice to spend this money today, or in the future. When do you want to spend it?"