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Prospective

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Timely information about pensions, group insurance and other sectors related to human resources

From the Great Depression to the Great Savings Era?

Almost a 100 year ago, the world suffered the economic disaster of the Great Depression that resulted in the crash of the stock market and the rise in unemployment to a sky-high level, from which nothing was done to limit the losses and the consequences that followed. But today, what was heading towards an economic disaster because of the COVID-19 virus led governments to react and, in a calculated move, inject money into the economy in hope to avoid another economic disaster.

When the stock markets crashed at the end of March 2020, many workers found themselves without a job. However, the massive amounts of money injected into the economy by governments helped workers who had lost their job survive the lockdown and avoid financial stress. This measure proved itself more than efficient to avoid another Great Depression and even then, before we could even begin to expect a recovery, stock markets rose back to previous levels within months. But did it leave us in a better state?

Our Habits Will Never Be the Same

Picturing that over one single pivotal day, we would change our habits completely and start a revolution was utopian. We started overnight to work remotely without the remorse of not showing up to work; we, for most, stopped going to restaurants or to regular “happy hours”; we stopped flying from one country to another for leisure or business, and confined ourselves home for the time this pandemic would last, but we could still do everything from home.

For some, just by staying home, working remotely, and without losing a cent on their paycheck, the old habits of spending here and there turned into a forced habit of saving money, a lot of money. We stand today with workers across the globe having a large cash account balance, way above the average we have seen in the past decades, because that money could not be used on old habits. It is hard to get rid of a bad habit of spending too much money on unnecessary things or activities, but there is now an opportunity to redirect those savings to healthier financial habits, like saving for retirement.

“The tough question is to know how much a person needs to retire comfortably”

Savings for Retirement While We Can

The savings rate for retirement has never been so low in the past decades. The consequences of the pandemic on our spending and saving habits are the perfect opportunity for workers with piled savings in their bank account to take action, review their objectives for retirement, and actively change their current saving habits to make sure they reach their goal before it is too late. The people that were currently diverting dangerously from their objective get to seize a second chance to review their retirement objective.

The tough question is to know how much a person needs to retire comfortably and continue spending money to keep the same lifestyle. Some mention that people must have enough savings to provide for 70% of a worker’s pre retirement salary, others mention workers should save 10% of their salary each year until they retire, some will say this, and others say that. However, it is true, all situations are unique, and no simple answer will fit all cases. Therefore, how much do you need?

The Million-Dollar Question… or Challenge!

Who never wanted to be a millionaire? If someone’s goal is to be a millionaire at retirement, they will be very comfortable financially and won’t have to worry much about outliving their savings. But if someone wishes to accumulate 1 million dollars at age 65, what can they do from now on to reach that goal, and more importantly, is it too late or even feasible to reach that goal? There are two key factors to consider for the success of such a goal, the automatic payroll deposit and the investment in appropriate funds.

Looking at the table on the right, someone who starts saving at age X and retires at age 65, earning a net rate of return of 5%, and targeting to have accumulated 1 million dollars at age 65, will need to save annually…

Age Today (Age X)	Annual Savings Required
20	$6,110
25	$8,080
30	$10,800
35	$14,690
40	$20,450
45	$29,510
50	$45,230
55	$77,590
60	$176,610
65	Too late

As we can see from the table on the right, the sooner people start saving the (much) better off they will be at retirement. The compounding effect of saving early will help in easily reaching the one million dollar goal, as opposed to people who start saving later in their life which will require them to compensate for the unearned returns and the contributions yet to be saved for retirement.

People approaching retirement who did not save for retirement yet (or barely enough), will be discouraged by what they see above and will need to readjust their retirement goal. However, if they are young and started a few years ago in the workforce, nothing is lost, and they may be interested and well motivated to reach the million-dollar mark.

Employer Can Help by Offering a Pension Plan

You may have heard somewhere that “Plan Beats No Plan” and it applies to pension plans as well. If someone thinks they do not need a pension plan, they should think again. A pension plan is an efficient tool for workers to help them reach their retirement goal. Not everyone is an expert in investment and retirement planning which is why it is better to have a pension plan, with the help of an employer, than having someone’s expectations cut in half (or more) when they decide to retire and are told they have not saved enough. We always say that “it is never too late to do something”, and it is true, but some sacrifices may be required to reach that “never too late” expectation for some people.

In this post-COVID-19 era and following the disruption in many people’s habits, there is an opportunity for employers to review what they offer to their workforce in terms of retirement benefits, but also educate and encourage their workforce on the importance of saving enough for retirement. The money set aside today in an investment account will benefit the stock market and the economy now and will later be spent on retirement, which will then stimulate the economy again. It is better to encourage savings now than having people with low to no savings in an insecure financial situation at retirement, likely requiring governments’ interventions.

> “A pension plan is an efficient tool for workers to help them reach their retirement goal”

Will employers and employees team up and seize the opportunity to realign their habits together and save more for retirement?

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