Why disciplined saving is so important to reaching your retirement goals

A 24 year old blogger named Zach created a simple chart that showed how quickly you could retire if you were able to save larger and larger chunks of your income. It assumes a 5% return on your savings and a 4% draw on your assets at retirement.[1]

Things you'd probably learn in Finance 101.

But what's made this chart so widely shared and discussed is that it shows that if you can save half of your take home pay, you can retire in 16.6 years--regardless of your income.

While many people have commented that they find the chart motivating (few think they can take the extreme, 50% track), it's also angered some. They seem to resent the idea that it's possible to spend significantly less than you make unless you are wealthy.

With budgeting and personal finance management no longer taught in schools, frugality, which used to be considered responsible behavior, has become a countercultural lifestyle choice.

No wonder noted author and financial radio host Dave Ramsey says that spending less than you make is "living like no one else." So even if the idea of saving 50% of what you make seems impossible, it doesn't mean having an aggressive saving strategy that aims to save as much as feasible won't reward your efforts. Especially since you know a savings rate closer to 0% most assuredly will deliver results you won't want to experience.

Saving and opportunity cost

There's a popular myth that says if you could only get your hands on a few million dollars, you'd never have to think about money again. Sadly, exactly the opposite is true. Lottery winners are far more likely than the average person to go bankrupt.[2]

No matter what your income level, saving is an important discipline to learn because it teaches you to control your spending. Applying discipline to your saving and spending fits squarely into our consistent refrain that prudent investing is all about controlling the controllables.

The flip side of that is what's known as "opportunity cost." It means simply that the money you spend is money you can't invest. For example, if you buy a new bass boat instead of saving for retirement, not only is your $25,000 "investment" rapidly depreciating in your driveway, but that's $25,000 that doesn’t have the opportunity to be growing and compounding over time through potential wealth-building power found in global capital markets.

Because of this diverging contrast, twenty years from now that bass boat might have actually cost you more like $75,000.

Why it's essential to have a plan

The reason lottery winners typically blow through their money so quickly is that they spend it based on their whims rather than according to a plan. Acquiring their new-found wealth didn’t require a structured, disciplined process. Preserving wealth requires habits that are completely foreign to most.

The first step in saving—no matter how much you make—is having a budget and sticking to it. The next step is having a plan for the money you've been able to set aside. You need to consider it already "spent" so that you're not tempted to direct it elsewhere. This is where your trusted financial advisor is your biggest ally. He or she can help you sort through your finances to make sure you're saving all you can, set up a plan for where your savings should be directed, and (most important) hold you accountable to stay on track.

Having clarity about why and how you’re progressing toward your goals is key to staying committed to them. You'll live with greater confidence today knowing your finances are in control, and in the future when you ultimately reach your retirement goals.

Sources:

1. https://www.thesimpledollar.com/the-most-motivating-financial-chart-ive-ever-seen/
2. http://time.com/4176128/powerball-jackpot-lottery-winners/

Important note: