Service-Learning “Planning for Retirement” Presentation

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Transcript

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Hi, my name is Tyler Tisdale. I am currently a senior at Boise State University, and for my capstone, I decided to do a service learning project to help you all better understand investing, at least at the surface. Like I said, as a college student, I’ve personally taken interest in investing in general, both recreational investing and retirement investing. All the research I’ve done has really made me understand how valuable contributing towards retirement could have been had I done it in a much earlier stage of my life, and that's why I chose this, trying to present you all with the information you need to set yourself up for the future.

So, the basics of retirement investing. IRA. What is that? An IRA is an individual retirement account, and there's essentially three types. There's a traditional IRA, a Roth IRA, and a 401k. Traditional IRA, the money is taxed when you take it out of the account, i.e., when you're retired. A Roth IRA, the money is taxed when you put it into the account, at whatever tax bracket you're in, you know, at the time you put it in the account. A 401k is company-sponsored, meaning it'll come from your employer, or it'll be offered through your employer.

A traditional IRA, like I said, money is taxed when it's withdrawn from the account. This type of account allows you to invest in virtually any type of stock or bond. It has some exceptions for early withdrawals, and that's the thing with retirement accounts: they are meant for retirement. So, if you take the money out before retirement age, you're gonna get penalized in terms of taxes. They're gonna add an additional amount of taxes on top of it, just for taking it out early.

However, traditional IRAs do have some exceptions. For example, if the funds taken out are being used for college tuition payments, or if the money is being put towards a first home purchase. The good thing about traditional IRAs is you can choose how your money is managed. You can manage it and control it 100% by yourself, meaning, it's on your cell phone. If you have a friend, colleague, whatever, say that, “Stock XYZ is really good,” you can do a little research, and go, “Yeah, I want to invest in that,” and just pull out your phone and do it. It's that easy. However, most people do have somebody manage their account for them, and that usually involves some kind of fee, however they structure it. It depends on which professional you choose to manage your account.

For a Roth IRA, money is taxed when it's contributed, but that means no taxes are paid when the money's withdrawn, and it also more importantly means no taxes are paid on the growth of the initial investment, which, that's a key aspect of a Roth. It also allows you to invest in virtually any type of stock or bond. Doesn't necessarily mean you should, but it's your money. You can do what you want. Just keep in mind the fundamental purpose of a retirement account is to grow money. And a Roth IRA also gives you early access, meaning, after your account is five years old, you can withdraw the money you put in without a penalty. Now keep in mind, this has to be the money you put into the account, not any money that you've made off the initial investment.

A 401k is kind of different. They're offered by employers, which means they reduce your taxable income for that year, and this also allows your employer to automatically withdraw, well, to deduct a certain percentage of your salary per paycheck, and put it into the account. The cool thing about 401ks is the contributions are usually matched to some degree by the employer. So, if you say, “I want four percent of my paycheck put towards my retirement,” that means the company will also match four percent. So, you get basically double the money for half of the cost to you. It's free money. Really, awesome option. They do have some limits, but that depends on your company and how they want to structure it.

So, the math of investing. Most people would think that, if you have a stock, like say you bought a stock, and it has a one percent return per year, that you would have to let that money sit there for a hundred years to double in size. Not true. The whole principle of investing for retirement, as opposed to just taking money and putting it in a savings account, under your mattress, in the backyard, whatever you would want to do, is compounded growth. And compounding growth uses a terminology known as the “rule of 72,” which means a one percent compounding return would only take 72 years instead of 100 to double, which is a 28% deduction, or 28% difference in time. And time is the key aspect of investing.

The equation here, I’m math oriented. I get a lot of you probably won't be, and that's fine, but you can use that equation to calculate, timewise, what you might be looking at to get to a certain dollar figure you have in your mind. Now, calculating based on an initial investment, followed by recurring contributions, meaning if you initially put in five thousand dollars into the account, and then every month followed it up with another hundred dollars, that calculation is a lot more complicated. However, we have the internet, and there are easy tools on the internet, such as one in the link. And I will also put that link in the description of the YouTube video. I would suggest you use this calculator to play around with different values in the equation, and pay attention to which values have the biggest impact on the outcome, because time is the biggest variable in investing.

Practical example: the S&P 500. The S&P 500 is an index fund that tracks the performance of the largest 500 stocks traded on the Nasdaq. And you don't necessarily have to know what the Nasdaq is. It's a market exchange, so you can just think of it in general terms as on the US stock market. Using the S&P 500's past 30-year average annual growth rate of 10.7 percent, if you took an initial investment of five thousand dollars, and contributed an additional hundred every month, at the end of 45 years, you would have over 1.5 million dollars. Assuming that 20 is going to be about the age that you would start being able to financially put away for retirement, that puts you right at retirement age. And I don't know about you, but having an extra 1.5 million dollars in retirement, that doesn't sound like a bad deal.

This figure shows you a year by year breakdown of the total value for that account. As you can see from the red line, that's your total account value, and it really starts to increase in total value the last 10 years in this whole process. And that's why time is key, because you're compounding on the previous year's growth and value.

So how to save money, because this is a big one. Five thousand dollars is a lot of money, especially at 18 years old. But the most obvious answer to people, well, pretty much everybody, is be more conscientious about what you buy and why. Me personally, I can look back at things I bought when I had a decent amount of money on-hand, and I don't regret those decisions, but looking back, I know that that money could have been better utilized for me, and my future more specifically.

You can also create side hustles. And side hustles are just any little side job, hobby, that makes money. You know, saving aluminum cans, taking them to Oregon for five cents apiece, shoveling snow in the winters, tutoring. My personal one is sharpening knives. I find sharpening to be fun and challenging, and I’ve gotten pretty good at it over the years, and I charge people

five dollars a knife. Five dollars isn't a significant amount of money, but when you multiply that over the course of probably 500 knives I've done in my life, then it's a significant chunk of money. The key thing to this whole concept is small amounts of money add up over time. That's the biggest thing.

The most significant factor, though, is you. This is not something that is just gonna happen for you. You have to make a conscious decision to, one, initiate it, and two, constantly follow up on it, constantly put money in there. It can be challenging, but if you do it, it can also set you up big time for your future. I mean, just not worrying about money when you're retired is huge and, I don't know, it's one of those things I know that a lot of you probably won't do this. But I'm hoping at least a couple of you will take this information to be motivated to look up more information on the internet, family, you know, whoever. There's tons of information out there. But I hope you'll decide to start investigating it on your own, because everything I've given you is very surface level, the basics.

One thing to remember, though, there's a lot of information on the internet. A lot of it's good, not all of it's good. You need to know that past performance is not gonna guarantee future performance, and that goes for the performance of a stock and the performance of a person suggesting it to you. Just because they did really good in one month, and made a million dollars, doesn't mean that they're going to be able to do it again. So, always take that with a grain of salt. You really need to understand that, if you invest in something, it's your responsibility, and it's also your liability. You can't blame it on anybody else. If you made a decision, you have to own it. Just know that going in.

And here are some references, the ones I used for the information in this presentation. I have found them to be very reputable, but there are tons of other ones out there. And I hope you'll take this and kind of run with it, because I know how much good it could do in the future, especially if you get started young.

And other than that, I'd just like to say thank you for your time. Hope you all get interested in this, and I also hope you all have a great Thanksgiving and Christmas break. I have included a short survey. Take you no longer than five minutes. I would appreciate if you did that to give me some feedback. And I will also put the link to that calculator, so you can get to it as easy as possible. Thank you all.

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