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Gambling on Your Financial Future

By Steven B. Smith

Winning the lottery is the most practical way to accumulate several hundred thousand dollars. At least that's what one in every five people said in a recent survey by the Consumer Federation of America and the Financial Planning Association®. Far too many young people fall into the trap of thinking that they can either put off saving for retirement until later in life - when they will either start making the big bucks, or strike it rich in the lotto.

According to www.powerball.com, the official website of the popular multi-state lottery, your chances of winning $200,000 dollars is about 1 in 3.5 million. The National Weather Service pegs your chances of being struck by lightning this year at 1 in 240,000. Based on those numbers, you're more likely to be struck by lightning multiple times this year than to collect that $200,000 check from Powerball. If you're looking for the Powerball jackpot, your chances plummet to about 1 in 146 million. In other words, if your retirement plan consists of picking numbers at the local gas station, you may want to create a contingency plan.

Here are a few tips to help you get started.

Calculate Your Net Worth.
In order to better understand how to get to where you want to be, you first need to know where you are. You're net worth, which is simply your assets minus your liabilities - or how much money you have minus how much you owe - is the best indicator of where you are financially. Your net worth includes bank account balances, investments, current property values, and any debts like your mortgage or auto loans and credit card balances.

According to the survey, 77% of financial planners think it is very important to understand your net worth, but less than half of respondents understood what constitutes net worth, and fewer could calculate, even approximately, their own net worth. Calculating your net worth regularly is one of the best gauges to see if you're moving in the right direction, and if you are moving quickly enough.

Balance Your Spending Today With Saving for Tomorrow.
While 21% of respondents to the survey cited the lottery as the most practical way to wealth, the majority – 55% – acknowledged the most realistic way is to “save something each month for many years.” Yet only about a quarter indicated a belief that they could

save at least $200,000 at any point in their life. Less than 10% felt they would ever be able to accumulate $1 million. According to recent data, consumer spending habits are proving them right.

As a whole, consumers are spending more money than they make. The current U.S. savings rate is at its lowest since the Great Depression. Despite being the richest country in the world, the U.S. is number one in percentage of population living paycheck to paycheck, according to international market research firm ACNielson. The U.S. Bureau of Economic Analysis recently reported that in 2005, consumers overspent to the tune of $193 billion, up from $21 billion in 2004.

While those numbers don't bode well for consumers, most experts and financial planners agree that building wealth is much more attainable than most people think. A Financial Planners Association survey of financial planners indicated a belief that as many as 80% of young Americans can save at least $250,000 over a 30-year period, and as many as 50% can save at least $1 million in that same period. The key is to balance your spending today, with saving for tomorrow.

Most people can easily trim their budgets by about 10% without affecting their lifestyle. The trick is to understand where you're spending your money in order to identify and eliminate 'wasteful' spending. Use a secure online spending management program like Mvelopes Personal (www.mvelopes.com) or a computer spreadsheet or even pen and paper to track your spending for at least 4 weeks in order to identify areas of waste. You may be amazed how quickly those small purchases can add up.

Stop Paying Interest and Start Earning It
As you begin to trim expenses, it's important to begin applying the money you are saving to pay down any debts - the negative side of your net worth calculations, which are also called liabilities. Credit card debt often carries an interest rate of 15-18%, and should be eliminated first. By simply paying off your credit card balance each month instead of carrying a balance, you can save thousands of dollars in interest.

By investing the money you save, you can start earning interest instead of paying it. If you were to stash your savings under your mattress, you would have to save $555.55 a month for 30 years to reach $200,000. But by investing your money in an interest-bearing account earning a relatively low 5% average annual return, compounded daily, you would only have to set aside $248.45 each month, according to Bankrate.com. It's what finance gurus call the "miracle" of compounding interest.

Depending on how much you make, your contribution amount and how much your employer matches in your retirement account, your take home pay may only decrease by as little as a third of the actual amount you're depositing into your retirement plan. In other words, you may only lose $35 out-of-pocket while adding $100 to your 401(k) each paycheck. That means if you're not participating in a retirement plan right now, you're leaving money on the table - money that's going to Uncle Sam and possibly your employer instead of to your retirement. You are essentially turning down a bonus every year.

Watching Your Nest Egg Grow.

It's easy to put off saving for retirement, thinking that you don't need to worry about it until later in life. The truth is that time is one of the biggest factors in any investment, and your youth is your biggest ally in preparing for retirement. The sooner you begin, the easier it will be. Monitor your net worth regularly and make adjustments as necessary.

By managing your spending today, and earning interest instead of paying it, a healthy retirement nest egg is much more practical and possible than you may have thought. Investing the money you were going to spend on those lotto tickets may be a good start.

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