A Penny Saved: Revisited

"A penny saved is a penny earned," is an old adage that could use some revision. In the United States today, there are a plethora of opportunities to turn that saved penny into hundreds of dollars. From stocks and bonds to Treasury bills and mutual funds, no one has an excuse not to save or invest his/her money. Yet still to this day, skepticism and procrastination render many people helpless when it comes to something as simple as a savings account. Young people are even less likely to save due to a lack of income and knowledge. Many are also impulsive and impatient, and thus they are unwilling to set aside money and watch it expand.

The biggest loss of not saving is the opportunity cost, a concept to which many young people are oblivious. In a survey of teenagers, forty-one percent cited Donald Trump as the most financially literate person in the United States, when in fact he has filed for bankruptcy multiple times; and twenty-five percent chose Oprah Winfrey. To young people, these celebrities are only seen spending money on lavish items and never saving. In the same survey only nine percent picked Alan Greenspan (Franklin). Saving is obviously not the first thing that comes to mind when young people think about wealth, in spite of the fact that "it takes money to make money."

The best way for young people to save is to create a budget and set goals. The budget should be simple and allow for a reasonable amount of saving, and the goals realistic. In order to stick to the budget, young people must learn self-control and discipline. In order to achieve these goals, young people must realize the difference between a short term and long term savings goal. In both cases, when it comes to opening an account, the sooner the better. For me, a short-term goal is saving for graduate school.

It is important to start saving early to reach that goal because the cost of higher education is constantly rising and it is only five years away. The more I have saved up by then the less I will have to worry about financial aid and graduating with enormous amounts of debt.

A long-term goal of mine is to have started an individual retirement account by the time I turn twenty. While this goal may seem extremely farsighted to many youth, increasing problems with the Social Security system make it imperative to start saving early in order to have the means to live comfortably during retirement. This is a growing necessary goal for young people because as healthcare improves and people live longer, more money is needed to support oneself during retirement (Franklin). In addition, if a young person is extremely prudent in saving and starts early they could even have the option of early retirement. According to the Federal Reserve Bank of Dallas, if I deposit \$2,734 in an IRA with a ten percent interest rate compounded annually by the time I turn twenty, then with no extra deposits, I will have \$200,000 when I turn sixty-five (Building Wealth). Using the same formula, if I deposit \$13,719 by the time I turn twenty, I will have \$1,000,000 saved when I turn sixty-five.

Many young people today also don't realize that there are several other reasons for saving besides fulfilling goals. Savings accounts can be just as preventative as they are preparatory. Credit card debt consumes many young people and makes it difficult to become financially independent. Having a healthy savings account will limit not only the amount of credit card debt one may have in the future but also reduce the amount of money one may have to borrow when buying a new car or house for example. Everything from natural disasters to financial crises shows how unpredictable the future can be and perfectly illustrate the need for emergency savings funds. Any emergency savings fund is appropriate for anyone and probably the most useful although it is the least used (Clark). By having a sizable savings account young people are preparing for the future and minimizing the amount of damage an unexpected tragedy might cause.

The benefits of saving early are self-evident and easily achieved. It is by far the easiest way for young people to begin to accumulate wealth. If for no other reason than to keep up with the inflation rate, young people must realize that it's never too early and never too late to start a healthy habit that will have lasting effects on their lives.