



## Laying a Strong Foundation: Planning for 25 to 35 Year Olds

**Announcer:** Welcome to the Empowered Investor Podcast. Have you ever felt overwhelmed by the sheer volume of choices and voices telling you how to plan or invest for your future? With a straightforward approach, host Keith Matthews of Tulett, Matthews & Associates cuts through the noise to help you create a winning action plan for you and your family. The decision-making framework discussed in this show can transform you and your investment experiences and will increase your odds of becoming financially secure. Learn more and subscribe today at [TMA-invest.com](https://TMA-invest.com).

**Keith:** Welcome to episode seven of the Empowered Investor. My name is Keith Matthews and I'm joined by my co-host Marcello Taboada for today's episode. Today's episode is going to be a transition session. We're going to be switching gears, Marcelo. Before we do that, though, let's just do a quick review as to where we've taken our listeners in the Empowered Investor story.

**Marcelo:** Absolutely. So far, Keith, we've covered who is the empowered investor? And this is a hardworking Canadian who is serious about achieving his long-term and short-term financial goals by ultimately achieving financial security forever, we hope. Then we moved into talking about the different obstacles and mistakes that can damage this path to financial security. So the first thing we covered was noise. Then we moved into not having an investment philosophy, which is very important. Then we moved into how harmful predictions can be. Then we covered trying to time the market and this idea of chasing performance. Then we finished with not diversifying properly.

**Keith:** And Marcelo, why did we tackle obstacles first before we started going into some of the planning and the building sessions?

**Marcelo:** Because we want to make sure we set up a proper framework for people to start getting serious about achieving financial security.

**Keith:** That's awesome. Yeah, we wanted to make sure that we showed listeners what are the things that can derail an investor? What are the things that can derail a serious person before we get into sort of the construction of things to do? So now today's session is going to be the first of where we're



transitioning into the things to do. And we're going to really focus on financial planning. And that's one of the big roadmaps of the empowered investor: financial planning and creating an investment policy statement. Today is the start of our mini-series on financial planning. So the next three or four shows will be specific to financial planning, and in particular, we'll be breaking them up into age categories. We'll start with discussing why having a financial plan is a must for every Canadian at every age stage. We'll contrast the difference between a financial plan and an investment plan because the two are not the same. We'll take a deep dive into areas of financial planning but we'll do so within the age brackets as we mentioned earlier. In today's show, we're going to focus on planning for 25 to 35 year olds. And in the next two shows, we'll tackle the 35 to 50-55 categories, the pre-retirees, and then in the last show, we'll do the retirees. So, Marcelo, what do you see going on in today's world with the coronavirus? What's happening in budgeting and planning right now?

**Marcelo:** Yeah, I think we're living a really interesting case study, Keith. Unfortunately, a lot of people are suffering. If you're in a household where one person or two people have lost their jobs, this has created a shock in the system for that household. So on that side, that's very unfortunate and people are experiencing something that may be different from previous times. And then on the other hand, you have households where both people are working and they've kept their salaries, and they're seeing an unprecedented amount of savings because all of a sudden you're confined to your home, you're not spending on restaurants or social activities. So I think a lot of people will say this is really nice. So I believe a lot of people will change their behavior.

**Keith:** I'm not sure they're saying this is really nice, but I know what you're saying. Money-wise, what I think is happening, you're absolutely right, is that at the end of the month there might be some more money in the accounts because travel is gone. A lot of these discretionary spending social distancing is constraining some of the spending. Marcelo, then let's switch gears a little bit and share with our listeners. What is financial planning?

**Marcelo:** By definition, a financial plan is a document containing a person's current money situation and long-term monetary goals as well as the strategies to achieve these goals. Then a financial plan may be created independently or with the help of a certified financial planner. In either case, it begins with a thorough evaluation of the individual's current financial state and what the future expectations are.



**Keith:** Awesome. So what it's also saying is it's looking at the now, it's analyzing and studying where you are today. And then it looks at where you want to go in the future. And then you put an action plan in place to go from the now to get to the future. So what's the difference between a financial plan and an investment plan?

**Marcelo:** That's a great question. I see it sometimes a lot in our clientele where people are confused about the two. So investment planning is the process of matching your financial goals and objectives with your financial resources. Think about it as a complex recipe of a very complicated dish. Investment planning would be just a core component or an ingredient in this overall recipe. So we could say that investment planning is a core component of financial planning. Now we know, Keith, there are thousands of different investments that confuse people in the marketplace. So you have a lot of things, and investment planning is just a component that goes into the overall plan when you look at the financial planning.

**Keith:** Yeah, I know often potential clients over the years would have come in and said questions like, "Okay, Keith, I think I have an investment plan. I've got an investment problem." And they would sit down and we would discuss and review. And yes, they were asking questions around their investments and components, either stocks, bonds, or mutual funds. But when push came to shove, what we really realized was they didn't have necessarily an investment issue. They had a planning issue. There were so many other things in their life that they had to sort out first before they could really focus in on the investment. And I think you've said it quite nicely, it's an ingredient of. So within the context of a financial plan, the main sections that we encourage people to consider or look at would be a retirement plan, a retirement forecast, work around debt management. As you mentioned, the investment plan is within the financial plan. There's also risk management, which is insurance, tax planning, which is taking care of your taxes and looking for any efficiencies that can be gained. And then finally ensuring that you have your wills and your mandates and your power of attorneys in place. And that would be estate planning.

**Marcelo:** I love the graph in the book with all the gears because once you have the six working together, they work in unison, which is beautiful.



**Keith:** Yeah, they all work together and you can't just ignore one part. Now, some of the areas are more important for some of the age categories as we'll discuss today.

**Marcelo:** Let's get into the why, Keith. Why is financial planning such an important part of the journey to become an empowered investor?

**Keith:** I think at the crux, everybody, whether you're an individual trying to achieve personal goals or whether you're an organization trying to move the organization forward, you have to have goals in the future. You have to have things you want to achieve. And so for most individuals, they want to have some sort of financial security as they go through their lives. They want to make good decisions throughout. They need a framework and they also need a framework to understand how they're going to plan for the future. This is a huge part of the empowered investors understanding where you are now, understanding where you need to go in the future to go from point A to point B successfully. And then with that, it empowers you to make all the decisions you need to make along the way. Today's session is going to be really focused on the 25 to 35-year-old category. It's a critical category. Everybody, whether you're graduating from university, whether you're in a trade school, whether you're an entrepreneur in that age category, it's critical to get off on the right start. Now, Marcelo, you happen to be smack in the middle of that category.

**Marcelo:** Yes, sir.

**Keith:** So you're going to be the spokesperson as we go through here for this peer group. And we're going to ask you a few questions. Is that okay?

**Marcelo:** Yes.

**Keith:** All right. You've got a big peer group. What do you think your peers and friends are focused on financially?

**Marcelo:** That's a loaded question, but I think broadly speaking, if I look at my group of friends and circle, my network, so to speak, I think there's three things really that are worrying people a lot in this age category. One is the housing market. It's all we hear in Canada now how housing prices keep going up. So entering this market and securing that household is a main financial concern because it's going to take a big chunk of your salary and income. Then another thing that I've seen a lot is getting married, weddings. This is



something that parents used to pay for in the old days. Now most people have to assume the cost and these things are expensive. I just got married last year, so I know.

**Keith:** Marcelo, you and Alex had a beautiful wedding.

**Marcelo:** Yes. Yes. It was so nice to have everybody in the team there, but it's a lot of stress and a lot of money.

**Keith:** Marcelo and his lovely wife Alex invited the entire company and their spouses. So that was a great memory.

**Marcelo:** I still have to share the pictures, by the way, but they're coming. They're coming. And I think the last one is having kids. Most people are having kids later in life, but I do have some people in my network who are having kids now, 30, 31, 32, and it's a financial worry because you want to make sure you provide for your kids, right? So I think those three things combined, it's a financial worry for a lot of this age group.

**Keith:** Yeah, and I think this age category has more to the housing market in Canada is so expensive. You have Toronto and Vancouver that are off the charts. We live in Montreal, Marcelo and I, and so the prices are a little bit more reasonable. But still, having said that, they are creeping up quickly and it is very tough. So what do the principles suggest that age category focus on? I'm going to walk you through them, Marcelo. You're going to say whether it's a strong influence or not as important right now.

**Marcelo:** Let's do it.

**Keith:** Okay. Retirement plan.

**Marcelo:** I think by far this is the most important one. This is where you want to be saving at least 15 to 20 percent of your family earnings because this is going to set the base. If you start early and you get a grip of a good saving pattern and saving habits, you're setting up a really good foundation for the future. So it's extremely important.

**Keith:** Okay. And we're going to revisit that later today. So how about debt management?



**Marcelo:** The second most important, absolutely. Outside of your mortgage, which is okay for a lot of people. If you don't get a grip of your line of credits, credit cards, at this age, it could really damage you later on.

**Keith:** Yeah. And it's got to be linked to budgeting and to understanding spending patterns. Investment plan.

**Marcelo:** Very important. If you set up a strong investment philosophy that you can stick with and be consistent, this is the time I think where you. It's very important that you set it up and you stick to it in finding one too. So very important as well.

**Keith:** Risk management.

**Marcelo:** It's important, but it depends, right? If you have dependents and you have kids and you're starting to accumulate a lot of assets and you risk damaging your spouse if you die, knock on wood, you want to be talking about life insurance. So it is important, but it's more on a case by case basis.

**Keith:** Okay. Tax plan.

**Marcelo:** I wouldn't say that. Okay. It's important later on, but not in this age group, unless you're earning north of 300,000, most likely you'll be saving in registered plans like RRSPs, TFSA, so not a big concern for now.

**Keith:** Estate plan.

**Marcelo:** I think if you're married and you're accumulating assets and you're serious about your money, like for example, if you're accumulating RRSPs, TFSAs, you bought a house now, dependents are coming into the question, kids, you want to have a will, you want to be protected that way.

**Keith:** Even if there's no kids, I think you want to make sure you have a will. As soon as you start acquiring assets, you have to have a will in place.

**Marcelo:** Absolutely.

**Keith:** I agree with you, Marcelo, 100%. Saving, understanding your spending, investing, right? That's important to this age category. What are the big stumbling blocks? What are the things that get in the way for individuals to not be able to do those things correctly?



**Marcelo:** I think there's a few. Obviously, we talked about housing, and that's something we can't control. Prices keep going up. So that's a challenge. But I think on the more subtle side is something that we call FOMO, the fear of missing out. And I think this is amplified by social media these days. You're constantly exposed to the perfect lives on Instagram and all the social networks. So this compels people to spend money they don't have or live a life that could really damage it. Focusing more on the present than worrying about the future. So I think this is the biggest challenge that our generation faces.

**Keith:** Yeah, I totally agree. It's definitely something that my generation did not face 20 or 30 years ago when we were that age. So yeah, that's for sure. I also think one of the things that not only that age category is missing, that's not the right word, but even the older age category, we haven't had a tough economic time in Canada. We're in one right now. We're in a doozy right now, but we haven't had a real good strong recession since the early 1990s. So that's 30 years now. The challenge with not having recessions is you can have a false sense of security. That sets up poor saving habits. You don't save up rainy day funds. You don't think that you need to plan as much about the future. You often don't feel like you're going to face a hardship, a true hardship. I think unfortunately we've met our test. We've got a strong recession right now. That's something that all age categories are going to be affected by, and it's going to change the way they think about saving and budgeting.

**Marcelo:** Absolutely.

**Keith:** What are the two main issues then that this age category has? What are the two main recommendations that you have for the 25 to 35-year-olds, Marcelo?

**Marcelo:** I would say, number one, get a grip of your budget. Become aware of where your money's going. You gotta know where your money's going. You gotta know where every dollar is going. I mean, you can go to the extreme of this and you track everything, but I think having a big picture view of where the money's going is huge. Huge. Number two is, once you get a grip on your budget and you know where money's going, set up a savings plan. Pay yourself first and then move on. Life becomes easier this way.

**Keith:** Okay. So obviously we're talking about saving for a home. If you need to be making a home purchase as well as saving for your future, which essentially



means saving for retirement. Okay, that's awesome. Those are two great recommendations.

**Marcelo:** Okay, Keith, we mentioned 20 percent savings or 15 to 20 percent savings. Let's get into the why. What's the math behind that?

**Keith:** The math behind the 15 to 20 percent is straightforward. It essentially looks like this. If you save 15 to 20 percent of your income starting at the age of 25 and you save for 40 years, you will build enough of a nest egg that once added to the government pension that you will get, either CPP or QPP plus OAS, you add your private savings to the government pensions, that will give you approximately 70-75 percent of your pre-retirement income needed. So let's say at retirement you're making 100,000 a year. You retire at 65. You've been saving your whole life. You can now dip into your investments to provide somewhere in the vicinity of 70,000 of income. The savings is really to provide this nest egg which will then fund your lifestyle.

**Marcelo:** Makes sense, right? Because if I make 70-80,000 a year, I don't want to downgrade my lifestyle when I retire, right? So if I want to replace this income by 75%, if I add the government pensions, which is not much, the rest has to come from my own savings, right?

**Keith:** Yeah. And so the report that we're going to point to is a report done by Fidelity. It's called Global Retirement Savings Guidelines, and it really speaks about saving guidelines for individuals of all ages. And it speaks about sustainability spending patterns for retirees. We'll come back to that one in two shows from now, but in this particular episode, when we're talking about 25 to 35 year olds, the savings guidelines to replace your income in the future, if you start at the age of 25, is 16%. Obviously, the more you delay this, the more that number goes up. So if you start saving at 30, you need to put away 20%. If you start saving at 35, you need to put away 25%, and so on and so forth. There is also a saving milestone. Marcelo, I'm going to ask you a couple of questions in a sec. The saving milestone is given your specific ages, to be considered on track, you should have this amount saved up. So what's the saving milestone for a 30 year old, Marcelo?

**Marcelo:** The study says that a 30 year old should have one times their salary saved in retirement accounts. So, for example, if my wife and I make 160 combined, we should have 160,000 saved in our retirement accounts. That's what it says.



**Keith:** Okay. So that's a nice benchmark. So if I was to ask you to survey your friends and your peer group, and if I was to say, Marcelo, ask them if they have one time their total family income saved in retirement accounts at the age of 30, what do you think the general response would be?

**Marcelo:** Listen, my heart wants to say yes, but if I was a betting man, I would say no.

**Keith:** Okay. So let's go full circle here. If I was to ask you, does this age group, do your peer group, when they retire, do they want to drop their lifestyle dramatically based on the way they've been leading their lives?

**Marcelo:** Absolutely not. I don't think anybody wants to do this.

**Keith:** Okay. So then the math isn't working out. If they don't want that, but they also haven't saved, then we have a bit of an issue here. So let me ask the next question. Do you think that if they were to become aware of the mathematics and how all this works, that they would become better savers?

**Marcelo:** I think like anything in life, if you have education, you have empowerment. And if you have the empowerment to do something, you can achieve it. So if people knew why they need to be saving this amount of money, just forget the, "Oh, you should be saving for retirement." That's, it sounds preachy. It's, you're not going to do it. But if people understood exactly from the root why they need to be saving in terms of, and you link it directly to their lifestyle because now you see a consequence. I don't want to downgrade my lifestyle by 25-50% when I retire. I want to leave the same lifestyle or maybe even better because this is the time you've saved all your life. You're collecting the fruits of your labor. So you should be able, and you deserve to be able to live a better life.

**Keith:** I'm with you a hundred percent. So you're saying if we can get people aware of the why, then we're going to have much better follow-up. People will be much more committed to investing in their future.

**Marcelo:** A hundred percent.

**Keith:** So we're talking about the age category. Let's switch gears a little bit here on a really important concept called compound growth, because this is something that this age category has access to. What's the number one thing that a young person has in abundance of?



**Marcelo:** Time.

**Keith:** All right. So that's pretty critical in our story about compound growth. Marcelo, you want to maybe give it a shot at explaining your version of what compound growth is?

**Marcelo:** The way I understand it and the best descriptor of compound growth is growth over growth on growth. So if you have 10 and one year it returns 5% and you leave it invested, the year after you get your growth on the 10% and the 5% you got the previous year. And this just like snowballs, right? If we take a really nice example that Lawrence put together. If we have person B, they both start investing. One starts investing when he's 25. The other one starts investing when he's 35 and they're both investing the same amount and getting the same return. So they're both getting 7%. The person who started 10 years earlier has doubled the money. When you look at 25 to age 70, the person who started 10 years earlier, Keith, has doubled the money. That's huge.

**Keith:** Yeah, the example that Lawrence put together is \$2,000 a year, and the person who starts at 25 has \$613,000 left, or actually accumulated at the end of the savings years, and the person who started 10 years later has half that amount. Has \$297,000. That first 10 years allows you to have that last double in that magic compounding event. And so this is critical. This is why I think it's so incredibly important for a young person, even right out of university, bang, your first year, try to put 10, 15, 20 percent in your retirement account because that money is going to have the largest opportunity to grow.

**Marcelo:** Imagine what you could do in retirement with an extra 300,000. As opposed to if you have 600 on the other hand, you're retiring with 300, that makes a big difference. So worth to think about. Keith, we covered a lot of interesting points here. Now let's get into what planning can bring for people. What can it bring for you?

**Keith:** The reason why I think it's so important in the empowered investor dialogue narrative is that planning gives you the ability to get from point A to point B in a more controlled fashion. It's not perfect. It doesn't eliminate uncertainty. It's not a magic pill that you take, but what it does do is it increases the odds for you to get to your destination. And it does so in a way that provides you direction, control, and results. I just think that's such an empowering concept. And if it's done properly, not only do you get the results,



but you get higher levels of peace of mind. So as we've mentioned in previous episodes, that's a double win.

**Marcelo:** It's absolutely right. I've seen it with the clients in my four years at the company who come on board. A lot of them will come, like you said at the beginning, for investment advice. And that's the first thing they'll ask. But once you start getting into the whole financial planning and getting all the gears working together, you can definitely see how receptive they are from really enjoying a process where it reduces the stress, knowing where they're going, and it really helps them feel a peace of mind.

**Keith:** That's great. Marcelo, are there any negative consequences? Obviously, we spoke a little bit about it right now, but of not having a financial plan at the age of 25 and 30. And clearly, we're not talking about somebody actually having a written plan necessarily, although that can be optimal. We're talking about somebody really getting their head around some of the important facets that they have to do. So what are the consequences of not doing it?

**Marcelo:** So I think the first one is you're going to get a lot of stress, increased stress for not knowing where you're going. Or so if you have a goal and you don't know if you're on track, that can create stress for a person. Then later on, if you don't set your foundation right, then your saving habits properly, you could end up taking a lot of risk in the future because you didn't plan properly. So you end up having to save an enormous amount of money later on in life that could put a dent into your lifestyle. And I think nobody wants that, right? Then you may be relying on high real estate values. It's something you can't control. The market in Canada has been really good, but sometimes once in a generation, you get that dip in real estate that could really affect people. And then I think the worst one is having to rely on family for financial support. Nobody wants to be in this situation. I think about my parents and I want to be able to help them. I wouldn't like them helping me, right? Or a sibling or something like that. So that could be a consequence. And then the last one is the one we covered a bit earlier is you don't want to lose quality of life when you're retired. You want to maintain it or top it off. You want to enjoy the fruits of your labor.

**Keith:** Those are awesome. Thank you. As we wrap up, Marcelo, what are your takeaways for today's show?



**Marcelo:** I think the biggest takeaway I have is set up your foundation. Just like when you're building that house, you can have the nicest things for the house, the better materials, but if you don't have a strong foundation, it's not going to work. This is the time where you set up your foundation, you set up your behavior, and that'll set you up for success for sure.

**Keith:** That's awesome. I couldn't agree more. The only thing I would add is I really encourage individuals right after school or as you're starting up, start up an RRSP account. I know the tendency is to do a tax-free savings account at the beginning, but I'm a big believer of an RRSP account because you will not pull the money out. You will put it away and it will go towards your retirement. If you don't have a high income, you can take the deduction later. But start that RRSP account and start becoming more aware and picking up information about planning and budgeting and understanding some of those issues. And I think awareness is critical.

**Marcelo:** Yeah. Keith, before we wrap up, I never forget that story of three years ago we had a conversation about why should young people save? And I remember you told me you either stress from 25 to 65 or you stress from 65 to 90. And that stuck with me from the very beginning.

**Keith:** Oh, that's got to put the stress in at some point, and you've got to put the hard work and you've got to put the sacrifice in, and the compounding is so big at the beginning. So you've got to get on with it and move forward. Marcelo, that's a great show. That was our first in the mini-series on planning. Next show, we'll talk about 35 to 50-55 year olds. Folks, thank you so much for tuning into episode seven of the Empowered Investor. Be well, stay safe, and we look forward to seeing you in two weeks from now. Goodbye, everybody.

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