Casey Mullooly: How much more do you need to save in order to retire early? Keep watching to find out.

Welcome back to the Mullooly Asset Show. I'm your host, Casey Mullooly, happy to be back with you for episode 342. Saving money is the cardinal rule of all personal finance, but why? Why? Have you ever actually considered that? Well, besides giving you peace of mind, delaying gratification, saving money can also buy you time. Now, I'm not talking about it can add years to your life or anything like that, but it can add years to your retirement. Nick Maggiulli, who blogs over at Of Dollars And Data, he never misses with his stuff, his stuff is always great, recently he looked at this question of how much does increasing your savings rate, how much time does increasing your savings rate buy you in retirement? The answer, of course, because it always is this answer, but the answer is it depends on several factors, like what is your starting savings rate? How much money are you earning on that savings, and how much time do you have to go until your retirement? It depends on all of those things.

But we're going to walk through a simplified example that Nick outlined in his post, we'll link that up in the show notes. I think Nick did a really good job of quantifying what saving more money can give you down the road in retirement. So let's get into some numbers here. So if you're 10 years away from retirement, let's say you're 55 years old and you've got 10 years to go, you're almost there and you need to save $50,000 more to hit your retirement savings goal. Now, just a quick sidebar, retirement savings goals are completely subjective. It's going to depend on your individual circumstances. So just bear with me for the rest of this example, but you've got 10 years to go, you need $50,000, let's say you make $100,000 after tax and you're saving 5% of that money, that means you're saving $5,000 per year. Well, how long is it going to take you to save $50,000? It's going to take you that 10 years ago until retirement.

Now, what happens if you increase that 5% to 6%, just a 1% increase? How much time would that save you? Well, you would hit that $50,000 retirement savings goal 18 months earlier just by increasing at that 1%. Wow, that's huge. 18 months earlier, you can retire 18 months ahead of schedule. That's 18 more months of golf, 18 more months of traveling, 18 more months of spending time with your loved ones or 18 more months of not working and putting your feet up on the couch. That sounds pretty great to me. Now, this effect is obviously more pronounced if you go from 5% to, let's say, 10% or 15%, that you're going to get more time by increasing your savings rate more, but that 1%, the smallest of changes really does make a big difference. Now, I will add that this effect is less pronounced if you're starting from a higher savings rate. Now, let's take the same example, but your starting savings rate is 15% instead of 5%, and you take that 15% and increase it to 16%. Still that 1% increase, but the starting savings rate is different.

That is going to save you six months, that you're going to hit your savings goal six months earlier as opposed to 18 months earlier. So the higher your starting savings rate is, the less pronounced this impact is. But the point remains that small changes, compounded over time, over long periods of time like 10 years, can have a great impact on your finances and also your quality of life. It can allow you to get out of that job that you hate a little bit earlier, and that is a huge, huge thing. So if you've got a low savings rate or you're not saving anything at all, time's a ticking, it's time to get started and you could be saving yourself time down the road and that could make all the difference. So that is the message for episode 342. Thanks, as always, for tuning in. We'll be back with you next week.