Financial Security Is The New Retirement: What It Is And How To Get There

For younger workers, retirement is a long way off. Life spans are getting longer, medical technology is improving and jobs are fresh and exciting. After working so hard to get a job, most young professionals don't want to immediately think about giving it up!

It's hard to find a place to disagree with an assessment like that. Retirement planning appeals to folks who can see the end of their careers and have some idea or concern over what their futures will look like. For those just starting out, or for those who are passionate about their careers, retirement planning isn't a useful way to think about savings.

This trend shows in the numbers. A recent survey by TD Ameritrade shows that 48% of Gen Y respondents aren't saving for retirement. Another 33% started saving, but have stopped. It's tempting to look at that data and see a bunch of ignorant people, but there might be something more complicated going on. Maybe the language of retirement just doesn't work for today's young worker.

For more and more young people, financial stability is replacing retirement planning as the savvy way to think about saving for the future. A lot of the same tools work for both options. The biggest difference is that you don't have to be old to be financially secure!

What is financial security?

According to Investopedia, financial security is having enough passive income to cover your expenses for the rest of your life. For example, if you have rental property, dividend income, savings account interest and a turnkey business that provide enough money to live on, you've achieved financial security. As you age, more of your income is provided by these opportunities, leaving you with more time to pursue your passions.

Financial security is having the means to quit a job you may not enjoy. It's the freedom to move somewhere because you want to live there rather than because you're following a job. It's being able to take a month off to work on a novel or screenplay. It means you can take care of an ailing parent or take vacations on your own schedule.

It’s not *quite* retirement. The assumption of financial security is that you’re still making money somehow, whether in residual income from work you’ve already done or from small business opportunities you work to maintain. It does look very similar to traditional retirement, though.

How do I get there?

Most of the advice that applies to retirement savings applies to saving for financial security. Putting away 50% or more of your income into savings vehicles and investments is a good place to start. Avoiding debt for consumer purchases or lifestyle maintenance is another sound move.

The real difference comes in timing. WIth traditional retirement planning, you invest more as you get closer to retirement. The goal is to accumulate enough savings to live on for a decade or two when your expenses are at their highest, so you need to contribute more during your peak earning years. Typically, these come just before you retire. You’re an experienced veteran in your field and your salary is usually at its highest just before retirement.

When your goal is financial security, the timetable reverses. In the beginning, more of your wages need to go toward investments. As they start to bring in returns, more of your income becomes disposable. Because your savings aren’t locked up in a designated retirement account, you’re free to use them to pursue non-work money-making strategies.

One other opportunity for investment opens up when your goal is financial security: investing in yourself. Learning a new skill can open up new opportunities or help you save money by in-sourcing an existing task. If you’re paying a web designer, learning to code yourself can save you the money you’re spending on building and open up new opportunities to expand your business.

What tools can I use?

There’s still space in a financial independence plan for traditional investment vehicles like IRAs and employer-matching 401(k) programs. These investments offer preferential tax treatment, which can be a valuable complement to other savings. The required delays before they can be used, though, does make them less than ideal for achieving financial security.

Rather than using these as principal retirement savings vehicles, more flexible options, like savings accounts, money markets, and certificates/CD’s allow for short-term savings. Money goes into these accounts until enough capital is accumulated to invest in another money-making project. Think of saving as a prerequisite for investment, not as a synonym.

Investing in stocks and mutual funds is also an important part of financial independence. Focus on trusts and companies that provide consistent dividends and steady growth. Avoid trying to “hit home runs” with stock picks that triple or quadruple in value overnight, and instead look for slow, steady growth. These investments are more about keeping your money safe from inflation than they are about making it grow in value.

Another resource you will need in the journey is knowledge. Much of financial security involves navigating a lot of unknown waters. Being a small business owner requires financial knowledge that just isn't taught in most schools. That's where MembersAlliance Credit Union can help. Our friendly, knowledgeable staff can walk you through the steps to being master of your own financial destiny.

If you're interested in financial independence or just in improving your financial future, call, click, or stop by MembersAlliance Credit Union today.

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