(UBS)

You can still put pennies to work

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After 232 years, the penny has finally dropped.

The US Mint struck the final 1-cent coin that will be used as legal tender on Wednesday, six months after the Trump administration announced that it would stop producing pennies because the cost of making them is almost four times more than they're worth.

You'd probably struggle to find anything that you can buy with just a penny these days. The majority sit in drawers or down the back of sofas. Many are cast aside or collected in glass jars. However, there are still an estimated 250 billion pennies in circulation, **the American Bankers Association** said in October.

The penny remains legal tender, and by itself you could say that a penny is not worth much. But there is the famous saying: "A penny saved is a penny earned." If that is true, how much is a "penny invested" worth?

To answer this question, we have to do a little math to calculate compounding growth. In an earlier report, "**Doubling time and the Rule of 72**," we looked at a shortcut for calculating compounding of returns: Divide 72 by the annual return to get the approximate "doubling time" for the investment. For example, if you get a 7.2% annual return, it takes about 10 years for your investment to double (72 / 7.2% = 10 years). If a 25-year-old investor saves and invests **1 penny** today at a 7.2% rate of return, she would have **2 pennies** in 10 years, **4 pennies** in 20 years, **8 pennies** in 30 years, and **16 pennies** by the time she retires at age 65.

It's equally true to say that "a penny spent is many pennies lost" when you account for the investment returns that you're missing out on. For instance, if you buy a donut for **$1** at age 25, that donut costs "future you" about **$7** at age 65 (assuming 5% growth). And when you make a habit of spending that extra dollar every day, the consequences are compounded further. If you buy a donut every day from age 25 until you retire at age 65, the **$14,975** you spend on donuts will cost about **$46,693** worth of retirement spending at age 65.

However, donuts likely won’t cost the same every year. This **$1** per day habit increases your annual budget by about **$365** today, but with 2% inflation this results in **$806** more annual spending in retirement. This brings the total cost by age 65 to **$62,577**, and results in a higher retirement budget that will force your retirement assets to be stretched further.

Impact on savings

Donuts are a silly example (*but are one of the few items that still costs about $1*), but they help to show how spending habits can create compounding effects on your retirement readiness by reducing your retirement savings, limiting your investment growth, and creating a pattern of high spending in retirement—potentially forcing you to delay retirement.

Prudent spending today will make retirement more affordable—and therefore, easier to achieve. For example, it may help to give yourself an annual spending increase to account for inflation (e.g., 2.4% a year), using this flexibility to account for routine cost of living increases and life events. By contrast, it may not be sustainable to increase your spending based on your income – such an approach is sometimes called “the hedonic treadmill” because when you habitually spend more you quickly get used to the new lifestyle, resulting in more spending but no lasting improvement in satisfaction. Staying off the hedonic treadmill can make it easier to save for the future; after all:

- When you spend less today, you save more today, and your investments will grow faster.
- When you save more today, you set better habits, and you will spend less in retirement.
- When you spend less in retirement, you set better habits, and you will reach financial freedom faster.

Of course, this can be easier said than done, and life is a lot more "lumpy" than any financial model, but it's a good benchmark for developing a budget. We recommend taking note of your spending patterns; this will help you keep track of your financial situation and help you calibrate your financial plan.

Last, but not least, setting a long-term goal to save an increasing share of your income over time can help you set yourself up for a larger pool of retirement assets and a more affordable retirement lifestyle.

Just because there aren’t any new pennies being produced, it doesn’t mean you can’t put old (and new) cash to work.

For more information, ask your financial advisor for a copy of the CIO research report, *The importance of saving and budgeting*, published 25 April 2025.

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