Which Investor Are You?
Tips for Savings Success

The Importance of Saving Early for Retirement

Most of us have heard this phrase at some point but it is easy enough to ignore. So let's quantify it.

In 2017, the maximum IRA contribution limit is $5,500/ year. Let's assume it stays at this level indefinitely. Please note we are using the maximum limit as an example, but if that is out of reach please substitute any amount…the concept still applies.

Let's look at two hypothetical investors who contribute to their IRAs in very different manners. We will assume that both investors earn 7% investment returns in their IRAs each year.

Investor A contributes $5,500 starting at age 22 and does so for 10 years and then stops. The total contribution is $55,000.

Investor B waits until age 32 to begin contributing, and then contributes $5,500/year until they retire at age 65. The 33 years of contributions total $181,500.

Who Has More Money at Retirement?

Investor A will have more at retirement even though they contributed less than a third of the amount Investor B contributed! By starting early and letting returns compound over time, the first investor would have grown their $55,000 into $758,241 while the late starting investor would have their $181,500 in contributions grow to $699,923.

If you start early, you will have contributed $126,500 less and yet have $58,318 more at retirement!

Some Tips for Savings Success:

1) Start early even if the amounts are modest. Every dollar counts! Time and compounding are your allies not just the initial investments. You can start with $100 or less…but start!

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2) Share the present with your future…a $3.50 Starbucks each morning costs over $1,250/year. Is your retirement worth a cup of coffee each day?

3) Increase your savings by splitting your raises in half…half for today and half for your future. As an example, if you earn $40,000/year and get a 4% raise, keep $800 for now and contribute $800 more into your retirement plan.

4) Take advantage of your 401k or other retirement plans. With the exception of Roth accounts, your contributions are pre-tax and thus your Federal and State governments will be partially funding your retirement savings.

5) Fully take advantage of any company match…it is like a free raise *plus* the savings outlined in #4.

6) Take advantage of one-time windfalls. If you win the SuperBowl pool, inherit a modest sum or earn a one-time payment, think of your future first.

7) Keep contributing to your retirement plan even, especially if, the market goes down. By contributing each week, you are buying more shares when the market prices have declined. This is known as dollar cost averaging.

8) If you are married but only one spouse works, and if you have enough income, consider funding an IRA for your spouse after contributing fully to your own 401k.

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An investment cannot be made directly in an index.

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[1] Source: Dictionary.com

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