

Save Now or Save Later?

Most people have good intentions about saving for retirement. But few know when they should start and how much they should save.

Sometimes it might seem that the expenses of today make it too difficult to start saving for tomorrow. It's easy to think that you will begin to save for retirement when you reach a more comfortable income level, but the longer you put it off, the harder it will be to accumulate the amount you need.

The rewards of starting to save early for retirement far outweigh the cost of waiting. By contributing even small amounts each month, you may be able to amass a great deal over the long term. One helpful method is to allocate a specific dollar amount or percentage of your salary every month and to pay yourself as though saving for retirement were a required expense.

Here's a hypothetical example of the cost of waiting. Two friends, Chris and Leslie, want to start saving for retirement. Chris starts saving \$275 a month right away and continues to do so for 10 years, after which he stops but lets his funds continue to accumulate. Leslie waits 10 years before starting to save, then starts saving the same amount on a monthly basis. Both their accounts earn a consistent 8% rate of return. After 20 years, each would have contributed a total of \$33,000 for retirement. However, Leslie, the procrastinator, would have accumulated a total of \$50,646, less than half of what Chris, the early starter, would have accumulated (\$112,415).*

This example makes a strong case for an early start so that you can take advantage of the power of compounding. Your contributions have the potential to earn interest, and so does your reinvested interest. This is a good example of letting your money work for you.

If you have trouble saving money on a regular basis, you might try savings strategies that take money directly from your paycheck on a pre-tax or after-tax basis, such as employer-sponsored retirement plans and other direct-payroll deductions.

Regardless of the method you choose, it's extremely important to start saving now, rather than later. Even small amounts can help you greatly in the future. You could also try to increase your contribution level by 1% or more each year as your salary grows.

Distributions from tax-deferred retirement plans, such as 401(k) plans and traditional IRAs, are taxed as ordinary income and may be subject to an additional 10% federal income tax penalty if withdrawn prior to age 59½.

*This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent the performance of any specific investment. Rates of return will vary over time, particularly for long-term investments. Investments offering the potential for higher rates of return involve a higher degree of investment risk. Taxes, inflation, and fees were not considered. Actual results will vary.

The information in this article is not intended to be tax or legal advice, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek tax or legal advice from an independent professional advisor. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Emerald. © 2015 Emerald Connect, LLC