Saving for Retirement: Never too early, Never too late

From the time we were kids, we were told that the early bird catches the worm. While that may not be true in every instance, it certainly is when saving for retirement and the main reason for that is "compounding." For example, say you put money into an account that earns interest. With compounding, any interest earned on your balance one month is added to your balance. And next month, the interest is calculated on your new, higher balance.

If you let time play its role in your retirement savings, you can meet your goals with smaller contributions. Or you can exceed your goals with slightly higher contributions. Whatever you do, the effect is multiplied.

While saving for retirement is easiest if you start in your twenties, any time is a good time, including today. And it's never too late because something is always better than nothing.

Let's look at the impact of time on savings and investments. Say you saved nothing in your twenties, but you start saving and investing $200 a month at different ages: at 35, 40 or 45. And say that retirement nest egg earns a steady 8% per year until you reach age 65. By age 65:

- Starting at 35, you'll have $300,259
- Starting at 40, you'll have $191,673
- Starting at 45, you'll have $118,789

But if you set aside $500 a month instead, by age 65:

- Starting at 35, you'll have $750,648
- Starting at 40, you'll have $479,183
- Starting at 45, you'll have $296,974

The impact of time is easy to see. But also notice that, whether you start with $200 a month at age 35 or $500 a month at age 45, you'll end up with about the same amount by age 65. So, here you'll have to save over twice as much each month to make up for a 10-year delay.

If you start even later ...

What can you do if you start even later? In that case, you'll need to understand clearly what you have and what you need.

Once you know the shortfall of what you'll need to cover your retirement, the first consideration is to set aside as much as you possibly can. Anything you save is more than what you'd have if you did nothing.

But you can also take some other actions to help finance your retirement.

You can work longer. You may have thought of retiring at 66 or 67 – when you reach your Full Retirement Age for Social Security benefits. But by working longer:

- you continue to add to your retirement fund from earnings,
- you may not have to claim your Social Security yet, but let it gain about 8% per year in delayed income credits until age 70, and
- you will have that many fewer years to finance with your nest egg.

You can find passive investments. By investing some of your funds in something that generates income, such as a business or rental property, you can have another revenue stream throughout your retirement.

You can redefine your lifestyle. Knowing what nest egg you can realistically accumulate, you might want to revisit your expectations. The healthiest solution would be to adjust your expenditures now, perhaps even downsizing your pre-retirement housing. The earlier you make adjustments, the less you might need to adjust.

In short, the earlier you start planning and saving for retirement, the easier it is. But, even in the case of late starters, you can still make up for some of the lost time – and design a plan that brings you confidence now and financial Independence during retirement.

- Thomas J. Roberts
Principal & CEO

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The principal value of a target fund is not guaranteed at any time, including at the target date. The target date is the approximate date when investors plan to start withdrawing their money.

Growth investments may be more volatile than other investments because they are more sensitive to investor perceptions of the issuing company's growth of earnings potential.

Value investments can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

The fast price swings in commodities will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.

Currency risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

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