



The *cost* of waiting

Whether your dream of retirement is quickly approaching or far off in the distance, it is never too early to begin saving for what's to come. Too often people put off saving for retirement until "later," when there is less time to take advantage of compounding interest. The earlier you begin to save, the more interest your money will earn, and the more money you will have for your retirement years.

The cost of waiting years, months, even days can impact the income you can expect to have for your retirement lifestyle. Take a look at this example: Sara and Betty are twin sisters. Both dream of retiring and traveling with family.

Sara – begins saving at age 27

Sara started to save for retirement income at age 27. She put \$2,000 each year into a tax-deferred IRA. She continued to put \$2,000 per year into this account until age 40 (13 years). Sara leaves the accumulated value in the IRA until age 65. On average, she earned 6% per year. **Her contributions over the 13 years totaled \$26,000.**

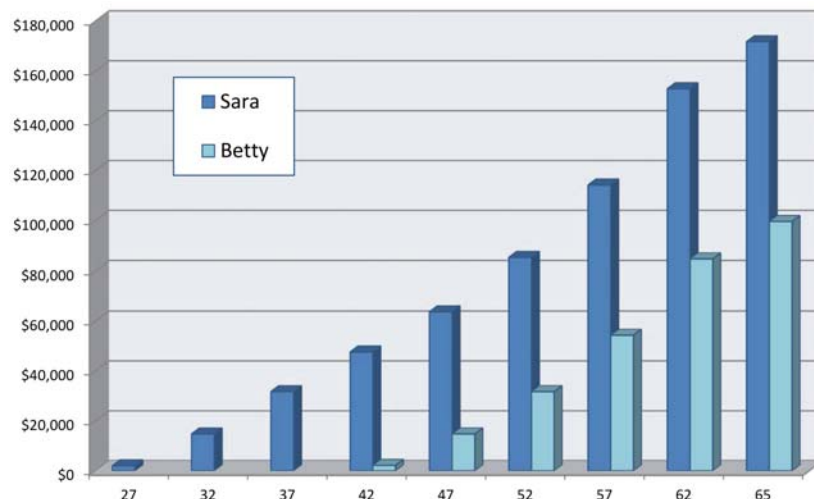
Betty – begins saving at age 42

Betty decided to wait to save for retirement until she reached age 42. Like her sister, she placed \$2,000 per year into an IRA. She also averaged 6% earnings per year. Unlike Sara, Betty continued to contribute \$2,000 per year until age 65 (23 years). **Her contributions over the 23 years totaled \$46,000.**

The Outcome

You might assume that because Betty contributed \$20,000 more than her sister and over the course of 10 more years, she would have more income for retirement. However, because of compounding interest, *when* contributions began is far more important than *how long* or *how much* each has contributed. Therefore, the opposite is true.

Since the IRAs earned 6% per year, Sara (who contributed \$26,000 total) would have \$171,804 in her account, and Betty would have \$99,631. The chart below illustrates the difference.



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