Funding Your Retirement: Save Early and Often

When you're 22 and starting your first real job, retirement may seem light years away. But then, suddenly, you're 60 and retirement is right around the corner. Preparing for a financially secure future takes time and an appropriate investment strategy for each stage of your life.

Starting Out

People who begin putting money away in a retirement account at the beginning of their careers can build a solid financial foundation for retirement. By starting to save in their 20s, investors will have many years to benefit from compounding — the continuing reinvestment of investment earnings. Contributing to a tax-qualified retirement plan at work offers the additional advantage of tax-deferred growth of assets — and "free" money, if an employer matches a percentage of employee contributions.

The long time horizon may allow investors to take more risk with their investments. Investors may want to consider allocating a substantial portion of their portfolios to investments with the potential for growth, such as stocks.

Part Way There

The middle years — 30s and 40s — are critical to the growth of retirement assets. By this time, when careers are generally well established, participants should save as much as they can afford in their retirement accounts. It's important to contribute at least as much as an employer will match — and more, if possible. Maximum growth of assets should be the goal during these middle years.

Retirement is still several years away, so investors may want to continue to keep a large portion of their portfolios invested in securities, such as stocks, that offer the potential for higher returns. While past performance is no guarantee of future performance, historically, stocks have always recovered from any decline in value and generally offer the best inflation protection of any investment.

Near the Finish Line

Investors who have been conscientious about investing should have considerable assets in their retirement accounts by the time they reach their 50s and 60s. At this stage of life, investors may be concerned with preserving their gains and protecting their portfolios against losses. Moving some assets out of riskier investments, such as stocks, and into lower risk investments, such as bonds and cash equivalents, may be a wise move.

Inflation also presents a risk to retirement funds. Even modest inflation can significantly reduce money's future buying power. Since retirement could last 15, 20, or 30 years, or even longer, investors may want to keep a portion of their portfolios invested in stocks — now and in retirement — because stocks historically have outpaced inflation.

Talk to your financial professional about an investment strategy that's appropriate for each stage of your life.