Life Lessons: Saving While You’re Young

When you’re in your twenties and just starting out in your career, saving for retirement might not be a high priority. It can be hard to save for retirement when you have so many other demands on your money. But getting a head start on saving now while you’re young could have a significant impact on your future financial security.

Welcome to the Real World!

If you’ve just started working at your first “real” job, you may be earning more money than ever before. But you also could have new expenses, too. If this is your first time living independently from your parents, you’re now the one responsible for paying the rent and utilities, groceries, gas, insurance, and all your other living expenses. Plus, you may be paying off your student loans and saving to buy a new car. Setting aside money for a far off retirement might not seem to be a sensible thing for you to do right now. But this really is the ideal time to save.

Time Is on Your Side

Saving for retirement while you’re in your twenties will give your savings more time to benefit from potential compounding. Compounding happens when the money you set aside for retirement generates investment earnings. Those earnings are added to your plan balance and reinvested. You then have the potential to earn a return on your contributions and your earnings. The longer the compounding process has to repeat itself, the larger your account balance may be at retirement. The money you save now could have 40 or more years to benefit from potential compounding.

Your Plan Makes It Easy To Save

Saving for retirement is very convenient with your employer’s plan. You don’t have to make a special trip to the bank or write a check each month. Your plan contributions are automatically deducted from your paycheck each pay period and put into your plan account. Because you don’t receive that money, you aren’t tempted to spend it instead of saving it. Try to increase your contribution whenever you can.

Built-in Plan Benefits

Your employer’s retirement plan also offers you a number of investment options. These funds or portfolios are professionally managed. You just select the investments that fit your risk tolerance and time frame. As a young investor with many years before you plan to retire, you may want to consider including stock investments* in your portfolio. While the stock market can be volatile in the short term, historically stocks have produced higher long-term returns than the other major asset classes and have stayed ahead of inflation. (Past performance is no guarantee of future results.)

**Stock investing involves a high degree of risk. Stock prices fluctuate and investors may lose money.*

Getting a Head Start

Making contributions to your retirement plan account while you’re young could have a significant impact on the amount of money you may be able to accumulate by the time you retire.

	Contributions	Earnings		
25	**$48,000**	**$214,481** **Invested 40 Years**	→	**Account Value** **At Age 65** **$262,481**
30	**$42,000**	**$138,105** **Invested 35 Years**	→	**Account Value** **at Age 65** **$180,105**
35	**$36,000**	**$85,997** **Invested 30 Years**	→	**Account Value** **at Age 65** **$121,997**

Age You Start
Making Investments

This is a hypothetical example used for illustrative purposes only. It is not representative of any investment vehicle. It assumes monthly compounding, monthly contributions of $100, and an average annual total return of 7%. Your investment results will be different.

Source: NPI