Personal Finance
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# Why It's Never Too Early to Start Your Retirement Saving

For many young adults in their mid- to late-20s, the notion to start saving for retirement seems ludicrous – It's so far away, right? But it begs the question: Is it ever TOO early to start saving for one's retirement? The answer to that question is a resounding "NO".

Having said that, everyone's financial situation is unique. As a financial advisor, I know it's important to understand all the moving parts in one's financial life before creating a solid savings plan – even at the young age of 25. Today's 20-somethings face a variety of financial challenges: skyrocketing college loans, how to successfully exit from mom and dad's health and auto insurance policies, finding a safe place to live on an entry level salary, and so on. With so much going on, there's hardly time to focus on a life event that is 40 years away, right?

Although retirement is a long way off for Generation Z, there are many benefits to at least getting started. Throughout my career, I have met many 50-year-olds who said they spent so much of their time and energy living "in the now" in their 30's and 40's that they put off initiating any real retirement savings strategy. And today, unfortunately, they find themselves woefully under-prepared for their "dream retirement" that is just around the corner.

But don't take my word for it, let's look at the numbers. Here are two good reasons why you should start saving for retirement as early as you can:

**1) If you start saving early, there's less of a financial investment to reach your goals.**

- A 25-year-old who wishes to accumulate $1 million by age 60 would need to invest $880.21 each month, assuming a constant return of 5%.
- A 35-year-old wishing to accumulate $1 million by age 60 would need to invest $1,679.23 each month using the same assumptions.
- A 45-year-old would need to invest $3,741.27 each month to accumulate the same $1 million by age 60. That's almost 4 times the amount that the 25-year old needs.

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**Author**
**Kathy White**, FPQP™, CRPC®
***Associate Financial Strategist***

Associate Financial Strategist Kathy White has been with McKinley Carter for more than a decade, bringing with her almost 30 years of banking and mortgage experience. She wears many hats at our firm because of her breadth of expertise.

Kathy's advisory skills encompass both individual wealth management and retirement planning. She also handles the administration of our employer retirement plans. Although she is based in our Wheeling, WV headquarters, she spends significant time in our Gaithersburg, MD office supporting client relationships. Additionally, Kathy oversees the on-boarding of new employees as it relates to technology and software tools.

Kathy has successfully completed the College for Financial Planning's Financial Paraplanner Qualified Professional™ designation program and the Chartered Retirement Planning Counselor program.

**2) If you start saving early, the effect of Compounding Interest is much greater.**

Using a millionaire calculator, you can see that if you start saving at age 20, you could set aside less than $300 a month and have $1 million by age 65, assuming a 7 percent annual return. By starting at this younger age, you would need to save half as much each month to build a $1 million nest egg as compared to if you waited until age 30 – and about one-fourth as much if you waited until age 40.

*Okay so I understand the value of starting my retirement savings early. But how exactly do I get started?*

- **Step #1: Determine which savings vehicle is right for you**
  Determine if Traditional or Roth IRA is the best option for you. This can be in an IRA or if your employer offers a savings plan, your 401(k). If you are starting early, chances are that Roth is the way to go as all that compounding interest that I referenced earlier will be withdrawn tax-free. The additional bonus on the Roth IRA is that there are no "Required minimum Distributions" when you reach age 70 ½. A Roth 401(k) will have a required minimum distribution, but you still get the advantage of not paying taxes on the gains. Talk with a professional advisor to get yourself on the right path.

- **Step #2: Take advantage of your employer's 401(k)**
  If your employer offers a 401(k), take advantage of it -- especially if there is a company-match on your contribution. This is free money, and the amount you can save is significantly higher than with an IRA.

- **Step #3: Take advantage of the federal Catch-Up Provision**
  As of 2019 the IRS allows you to contribute $6,000 annually to an IRA if you are under 50 years of age. After that, you can add an additional $1,000. The 401(k) limit is $19,000 if you are under 50 with a catch-up provision of $6,000.

So, the moral of the story is in the evidence listed above: By starting to accumulate savings early, you get more 'bang for your buck' and end up with a lot more in the end. Make the commitment to saving and know that you are insuring your future.