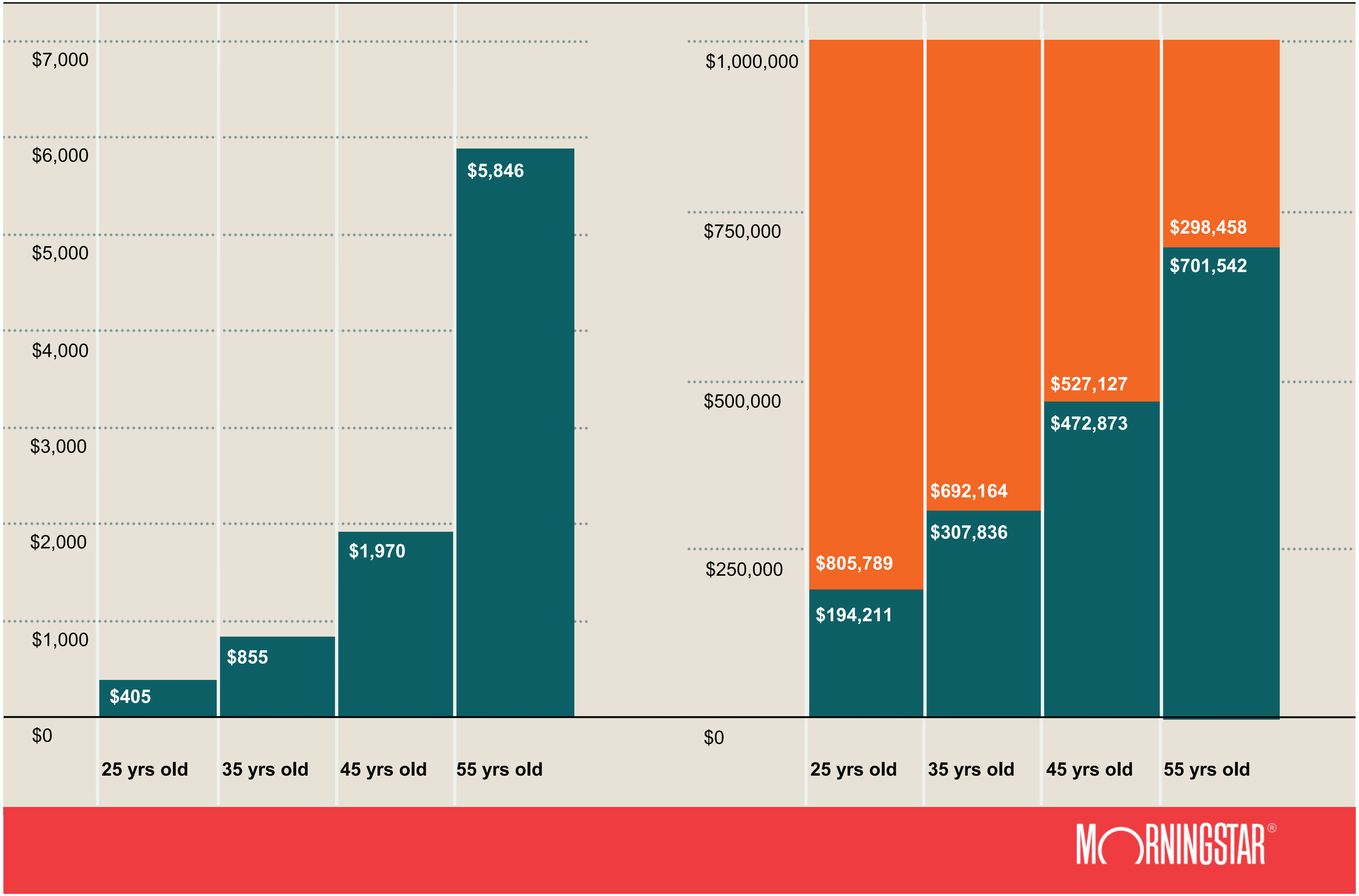
TNR WEALTH MANAGEMENT

The Earlier You Start Investing, the Easier It Is to Reach Your Goals

Monthly savings needed to accumulate $1 million by age 65



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DESCRIPTION

The left chart shows that if you made a 7% return each year and your goal is to have $1 million at retirement (age 65), if you started at age 55 you would have to save 14 times as much each month than if you started at age 25. (Almost 7 times as much than if you started at age 35, and almost 3 times as much as if you started at age 45.)

The right chart shows where the ending balance of $1 million would have come from. The green portion is the total contributions that were made. The orange portion is the total amount of investment earnings.

EXTENSION

Part of the problem is that people have no idea how much they need to get to their goal. The 2012 Retirement Confidence Survey by the Employee Benefit Research Institute (EBRI) in the US reports that more than half (56%) of workers and/or their spouse have not tried to calculate how much money they will need to have saved by the time they retire to live comfortably in retirement.

How much does the average investor need at retirement? The answer varies for each investor. What used to be the ideal nest egg of $1 million several years ago has probably doubled or tripled for many investors.

Once you have a sense of the amount of retirement savings necessary to support the income you need in retirement, you need to consider how much you should save each month to achieve your goal. The graph illustrates the amount of monthly savings needed to reach $1 million by age 65 for various ages. Obviously, the earlier you start, the easier it will be to achieve your retirement savings goal due to the power of compounding investment returns.

Many people do not start to save aggressively for retirement until they reach their 40s or 50s. The good news for these investors is that they still have enough time to change their savings behaviour and achieve their goals, but they need to take action quickly and be extremely disciplined about their savings.

Keep in mind that results will vary as investing involves risk, fluctuating returns and the possibility of loss.

ABOUT THE DATA

The image represents the monthly savings necessary should the investor earn 7% per annum from a hypothetical asset. No adjustment has been made to account for inflation, fees, transaction costs, or taxes.

PRINCIPLES

The difference in required savings cannot be simply explained by the fact that the 25 year old has more time.

The full explanation is that the 25 year old has more time to earn investment returns AND more time to earn returns on their previous earnings (compounding).

Note, the 25 year old's total contributions are less than one-third of those of the 55 year old.