SAVING FOR THE FUTURE: START NOW OR START LATER?

There are many ways to try to reach a future goal. You can save now, or you can save later (or perhaps do both). But there is an advantage to putting your savings and earnings to work for you as early as possible.

Compound earnings

If you save $1,000 now and invest it at an assumed 6% annual rate of return, in 1 year you would have $1,060, in 2 years about $1,124, and in 10 years about $1,791. Your earnings compound as you earn returns on your earnings. Your $1,000 initial investment increases through compounding to $1,791.*

Compounding at work

For example, let's say you start saving now. You save $5,000 at the beginning of each year in years 1 to 20 and put it into an investment that earns a hypothetical 6% annually. At the end of 30 years, you will have accumulated about $349,150.
Alternatively, let's say you start 10 years later. You save $5,000 at the beginning of each year in years 11 to 30. Once again, you earn an assumed 6% annually on that money. At the end of 30 years, you will have accumulated about $183,928.
In each of these examples, you've put aside a total of $100,000. However, by starting now, you accumulate about $165,222 more than if you start later, and all of that is from earnings. By starting now, rather than putting it off, you have put your money and the power of compound earnings to work for you.

Years	Start Now	Start Later
1 - 10	$5,000	
11 - 20	$5,000	$5,000
21 - 30		$5,000
Saved	$100,000	$100,000
Earnings	$249,150	$89,928
Total	$349,150	$183,928

Now, let's look at a different situation. Let's say you would like to start later but accumulate the same amount as if you had started putting money aside now. In this case, you would need to save more, about $8,954 at the beginning of each year in years 11 to 30, in order to accumulate $349,150 after 30 years.
In this example, you would need to save a total of about $179,085. That's $79,085 more than if you had started earlier, when compounding could have helped make up that difference. Compound earnings don't have as much time to work for you when you postpone getting started.

No matter how you save to reach a future goal, there is an advantage to putting your savings and earnings to work for you as early as possible.
All examples are hypothetical and are not guaranteed. Fees and taxes are not shown and could reduce the amount available.
****All investment involves risk, including the possible loss of principal.***

Years	Start Now	Start Later
1 - 10	$5,000	
11 - 20	$5,000	$8,954
21 - 30		$8,954
Saved	$100,000	$179,085
Earnings	$249,150	$170,065
Total	$349,150	$349,150

Strike a balance

Of course, you could accumulate even more if you do both. For example, if you set aside and invest $5,000 at the beginning of each year in years 1 to 30 and earn an assumed 6% annually on that money, at the end of 30 years, you will have accumulated about $419,008. This is substantially greater than the $183,928 accumulated if you invest $5,000 in years 11 to 30, while somewhat greater than the $349,150 accumulated if you invest $5,000 in years 1 to 20.

But maybe you can't afford to set aside $5,000 now. Could you manage $3,000 this year, increase that amount for next year by 3% to $3,090, and continue to increase the amount set aside by 3% each year? If that money earns an assumed 6% annually, you will have accumulated about $351,520 at the end of 30 years, slightly more than the $349,150 accumulated if you save $5,000 each year in years 1 to 20.

Compared to saving $5,000 a year for 30 years, you've contributed almost as much here ($142,726 compared to $150,000), but your earnings are substantially less ($208,794 compared to $269,008) because your largest contributions came in later years and had less time to work for you.

Year	Constant	Increasing
1	$5,000	$3,000
2	$5,000	$3,090
...		
29	$5,000	$6,864
30	$5,000	$7,070
Saved	$150,000	$142,726
Earnings	$269,008	$208,794
Total	$419,008	$351,520