

An Early Start Pays Off

Mary, 50, works as an accountant and has a 22-year-old daughter, Susan, who just entered the full-time workforce. Although a generation apart, both want to reach retirement with adequate savings.

Deciding to save

When Mary was age 35, she enrolled in her employer's retirement savings plan. She began contributing \$400 a month to her account. Seeing her own account grow over time, Mary has encouraged her daughter to start saving early. Susan contributes \$200 a month to her company-sponsored retirement plan.

Putting time to work

Despite her lower monthly contribution, Susan has the advantage of compound investing because she has more time for her earnings to grow. The chart below compares the results of her account at age 65 with her mother's, assuming both earn a constant 6 percent rate of return and continue their current monthly contribution.

Growth through Compounding

When Mary and Susan turn age 67, the value of their accounts will have grown considerably. Mary will have contributed more, but Susan's earnings will be greater due to compounding.

	Susan (\$200/month for 45 years)	Mary (\$400/month for 32 years)
Total contribution	\$108,000	\$153,600
Total earnings	\$445,954	\$311,788
Total balance at age 65	\$553,954	\$465,388

Note: Calculations assume a contribution is deposited at the beginning of each month and the 6 percent annual return is compounded monthly. Inflation and fees are not factored in. Source: calculatorweb.com.

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