Small Savings Can Add Up to a Big Difference

You may think you have plenty of time to save for retirement, but the truth is – it's never too soon to start. And, doing so doesn't have to break the bank.

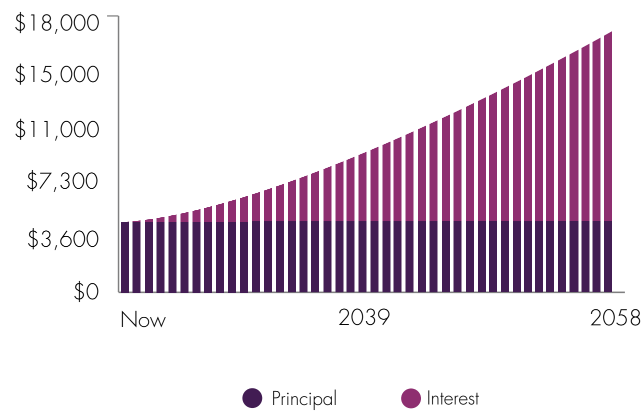
Small contributions not only add up, but they grow over time through interest. *Interest* is money a financial institution pays you just for holding onto your money. The great thing about a qualified retirement account like an IRA or employer-sponsored account is that you not only earn interest, but you earn compound interest.

Watch your savings grow

Compound interest is interest calculated not only on the initial principal, but also on the accumulated interest. Think of compound interest as earning "interest on interest," which makes it grow faster. This is also known as the *Time Value of Money* theory – essentially, what you invest now will be worth more in the future.

For example, if you have $5,000 in your IRA, and you earn, say, $5.00 in interest the first month, the next month, you'd earn interest on $5,005.00, and so on. It may not sound like a lot at first, but just by sitting in an IRA with compound interest, your money is earning money. The following chart illustrates what could happen to **$5,000** over a 40-year span, if all it does is compound interest at an average **rate of return of 3%**.

Future Balance: $16,578



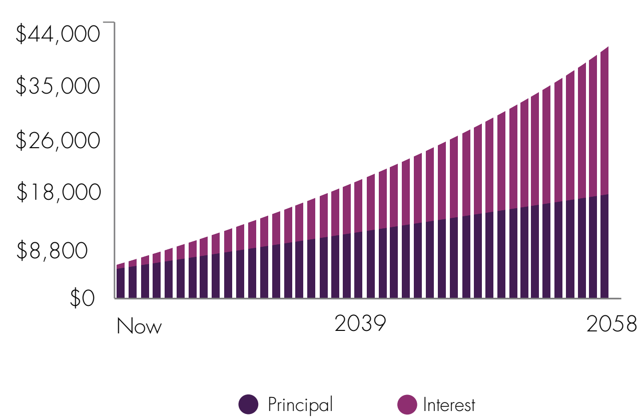
Every dollar adds up

Every dollar you contribute to your retirement account will earn you money too. If you can put $100 or $200 a month away every month, for example, that's great. But that might not be realistic for you. Even putting away $25 a month could make a significant difference for your future.

When it comes down to it, $25 a month is a little over $6 a week – a drop in the bucket. If you put the equivalent of one or two coffees into your IRA weekly, for example, these small savings could begin to grow.

Below is an example of what could happen if you started out with **$5,000** in your IRA and put **$25 away every month** at an average **rate of return of 3%**.

Future Balance: $39,790

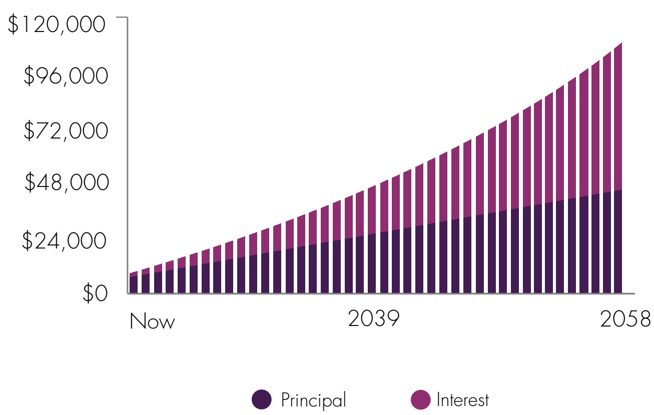


Make saving automatic

Of course, the smartest, easiest way to save is to have it done automatically. Consider talking to your employer or bank about having automatic transfers made from your paycheck or account into your IRA every month. The money will go toward your future and, chances are, you won't even miss it.

Here's an example of how much you could save if you start with **$5,000** in your account and automatically add **$100 per month** with an average **rate of return of 3%** – in 40 years, you could end up with more than $100,000 toward retirement!

Future Balance: $109,423



So, why start now?

The sooner you start saving for retirement, the more you will be able to earn. As you can see from this discussion of compound interest, $25 put away today is worth more than $25 when you retire: that's because $25 put away today has the potential to earn you money over time through compound interest.

For less than a dollar a day – a drop in the bucket – you could be building your retirement savings. And, when it comes to investing for your future, every drop counts.

* It is important to remember that these scenarios are hypothetical and that future rates of return can't be predicted with certainty and that investments that pay higher rates of return are generally subject to higher risk and volatility. The actual rate of return on investments can vary widely over time, especially for long-term investments. This includes the potential loss of principal on your investment. It is not possible to invest directly in an index and the compounded rate of return noted above does not reflect sales charges and other fees that investment funds and/or investment companies may charge.

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