Building a Solid Foundation in Your 20s

People often think that saving for retirement is something that can be put off until later. When you're just beginning your career, budgets are understandably stretched; why worry about saving for something that is decades away when student loans and rent need to be paid, and there's a great concert that all your friends are going to this Friday night?

But the truth is, your 20s are the most important years to start thinking about retirement. It may be hard to believe, but these are the years when you build the foundation of savings that will ultimately provide the returns you'll need later in life. The importance of starting early cannot be overstated.

To better illustrate, meet Derek. Derek is 25 years old and knows he doesn't want to work a day past his 65th birthday. By saving even a small amount on a regular basis, he can enjoy 40 years of continuous returns on his investments (ROI) by the time he enters retirement.

DEREK
25 years old

> “If your investments were to appreciate even just 3% per year, the growth would be exponential.”

Compounded Returns

If he invests his savings in his company's 401(k) or even an Individual Retirement Account (IRA), that money can be invested in stocks, bonds, mutual funds and other investment vehicles that over time provide returns, which typically outpace inflation over the long term.

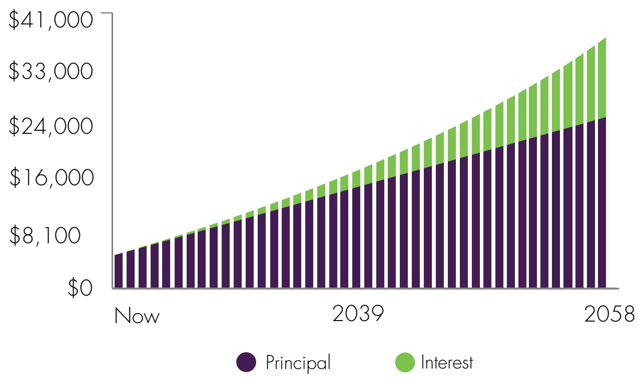
If his investments were to appreciate even just 3% per year (just enough to outpace recent inflation trends), the growth would be exponential. This exponential growth that builds on annual investment returns is what is called "compounded annual growth," and it is the main reason that saving early can provide such significant benefits later in life.

The Time Value of Money

The benefits of investing early are also exemplified in a financial concept called the Time Value of Money. This basically means that money at the present time is worth more now than the identical sum in the future due to its potential earning capacity. The sooner you begin saving, the more your money will be worth later on.

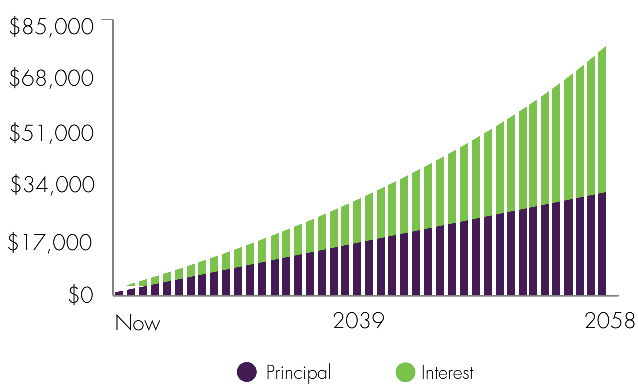
For example, if Derek were to invest $50 every month for 40 years in an account that has a 2% average rate of return, he would have around **$37,000** by the time he turns 65. The $24,000 he invested will have earned him roughly $13,000 over that time period, so the value of that money would have grown over time.

$50 per month for 40 years, 2% average rate of return



However, if he saved the same $50 per month over 40 years into an account that has a 5% average rate of return, he could have over **$76,000**.*

$50 per month for 40 years, 5% average rate of return



Tax Benefits

Lastly, there are significant tax benefits to investing your money into a qualified retirement plan like a 401(k), or an IRA. In a 401(k), contributions are often taken directly from your paycheck before income tax is calculated – meaning the more you take out and invest in your retirement, the less you would currently pay Uncle Sam in taxes. Contributions to an IRA are often tax deductible, and can be a useful tax-advantaged way to save for retirement, and even to supplement a 401(k) (if you are eligible to contribute to an IRA).

Millennium Trust has decades of experience providing resources and tools that can help young investors build the foundation they need to plan for a comfortable retirement.

“Whatever stage of the savings journey you are in, Millennium Trust is here to help you stay on the path to retirement readiness, and we look forward to working with you every step of the way.”

To learn more about what’s right for you and your savings goals, visit our Financial Calculators at: **https://www.mtrustcompany.com/learning-center/financial-calculators**

* *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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