Growth & Gains

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7 Simple Rules for Retirement Plan Success

by Krista Lebeck | October, 2019

I was 22 when I began my first full time job, which was at a large financial company. I had heard of a 401(k) plan but had nearly no idea what it was or why I might need to have one. When I was enrolling in my benefits, I sought the help of my Dad who, right off the bat, *insisted* I participate. He explained how important it was that I start putting money away for retirement as soon as possible.

At 22, I thought the concept of saving for retirement was laughable. I was fresh out of college. I wouldn't be retiring for more than 40 years, and, quite honestly, I had more important things to spend money on at the time – or so I thought.

Fortunately, I quickly learned the importance of having a retirement plan as a result of a few things:

1. My Dad, who has always been a pretty savvy businessman, is typically very persuasive and also generally right about these things (just don't tell him I said that) ☺ and
2. I served as a customer service representative in a retirement plan call center in that first job.

In the midst of my training protocol, I quickly learned the importance of not only saving for retirement in general, but also that if you're fortunate to have a retirement plan where you work, it's critical to join as soon as possible, as every little bit helps.

With my now 16+ years in this industry working with a countless number of employees, I have found one thing is certain: a great number of people put off saving for retirement. Why? Many times because the process can seem too complex or intimidating, making it easy to want to procrastinate. But when it comes to your 401(k) plan it's easier than you might think to achieve success if you adhere to a few simple concepts:

1. **Start as soon as possible.**
   One of the keys to retirement account success is to begin participating as early as you can. Why? Because the earlier you start, the less you'll actually have to contribute. Interest in a retirement account is compounded, meaning you earn interest ON your interest. The longer your money is in your account, the harder it will work for you.
   Here is an example:

...continued on next page

Retirement Plan Success - What You Should Be Doing Right NOW *(cont)*

Income: $50,000
Contribution: 5%
Total contributions: $87,500
Total account balance after
35 years: $449,233

**Assuming an 8% rate of return*

Waiting five years:

Total contributions: $75,000

Total account balance after
30 years: $295,331

As you can see above, a person making $50,000 per year and contributing 5% would have approximately $449,233 at retirement. If that same person chose to wait five years before starting, he or she would have a balance of $295,331. Waiting just *5 years* to start contributing equated to a loss of nearly $154,000 at retirement. When it comes to retirement savings, time really IS money.

2. **Make small increases**. As you saw in the example above,waiting just five years cost someone $154,000. Five years isn't a long time, but in a retirement account, it's enough to make a very significant impact. The same concept applies to the amount of money you contribute. It's likely that increases here and there will not affect your take-home pay as much as you think – but small changes can make a *huge* difference in the amount of money you will have at retirement. Here's another example:

INTEREST IN A RETIREMENT ACCOUNT IS COMPOUNDED, MEANING YOU EARN INTEREST ON YOUR INTEREST. THE LONGER YOUR MONEY IS IN YOUR ACCOUNT, THE HARDER IT WILL WORK FOR YOU.

Kristin is 30 Years old.

She buys 4 lattes at $4.50 each per week.

$18.00/week x 52 weeks = $936 per year.

4 lattes X $4.50 = $18.00/week.

**Her salary is $40,000 per year.
She is spending over 2% of her salary on lattes per year!**

In this example, Kristin wants to try to find ways to increase her retirement savings. She had been spending 2% of her salary on lattes! She decided to cut back on her spending in this area and instead increases her retirement contribution rate by 2%.

By making that one small change now, she could increase her balance by **more than $143,000** by the time she retires! Because interest in a retirement account is compunded, time *does* matter, and every little bit *does* help. If you're someone who has been on the sidelines with making contribution increases it might be time to act – especially if you're expecting to receive a raise or bonus, as this would be extra money you likely wouldn't miss!

Retirement Plan Success - What You Should Be Doing Right NOW *(cont)*

3. **Invest it right.** If you aren't investment savvy, you're not alone. Participants often tell me this is the most confusing part of saving for retirement. After all, in addition to ever-changing market conditions, there's a lot to consider when deciding how to invest your money, such as your age, your risk tolerance, how many years until you will need access to the money, and if you have other accounts you'll want to make sure those are part of the equation too. The good news is, if you're reading this now, you have people available to help you with this part. Investing the right way is important, but it does NOT have to be complicated. You have access to a team of experienced professionals to guide you in the right direction and to ensure you're on the right track.

4. **Let it GROW.** I recently spoke to a 35-year-old woman who had left her company and forgot that she had been automatically enrolled in a retirement plan to contribute 3% per paycheck. She was pleasantly surprised to find out that she had well over $5,200 in her account after only a few short years, and she began to contemplate what she could spend the money on. After a few quick calculations, she learned that if she were to leave $5,200 in a 401(k) account earning an average of 7%, she would have more than $55,000 more in her account at retirement. She decided to leave the money alone to continue to grow, as opposed to cashing it out and losing a significant portion to taxes and penalties.

5. **Keep it going.** A WONDERFUL thing about these retirement plans is that they're portable. If you leave your company, you can take your plan with you to your next job. If your next job doesn't offer a plan, you can put it into one on your own. Either way, it's yours to take with you when you leave and to continue to build upon.

6. **Pay attention to social security.** Now might be a good time to request a social security estimate if you haven't done so already. MANY employees have an inflated idea of how much money they will receive per month when they retire. On average, social security will only provide about 20% of your income. You'll want to make sure you have a realistic picture of how much you will receive to avoid any surprises, and also so that you know how much you'll need to come up with on your own.

7. **Make a budget (and keep it REAL).** It's very important to create income goals that are in line with what you'll actually need when you retire. The main piece of advice I offer to clients nearing retirement is to establish a budget – and keep it realistic. This could mean simply tracking what you currently spend for three or four months to get a clear picture of what you will need on a month-to-month basis. If you have a specific amount in mind, it's MUCH easier to establish a savings goal.

   Planning for retirement doesn't have to be complicated, but you DO need to take an active interest in the process. Don't fall asleep at the wheel – you'll most certainly regret it later. If you haven't enrolled in your company retirement plan, now is as good of a time as any to start. Once enrolled, stay active in making periodic contribution increases, and seek help when needed from selecting your investments to determining your contribution amount and/or type.

We want nothing more than to see you achieve retirement success. We're always here to help you with any questions you might have.

Until next time – happy saving!