Saving

Starting early: The power of compound interest

It's easy to put off saving for retirement, especially early in your career. But when it comes to building long-term wealth, time can be one of your greatest advantages. Starting early gives your money more opportunity to grow through the power of compounding — earning returns on both your contributions and the returns they generate.

Compounding at work

When you're first starting out, retirement is such a long way off that it's difficult to take it seriously. But the fact is, time and compounding help build up your savings. Compounding is the process where earnings on an investment generate additional earnings over time, creating exponential growth. The longer your money is invested, the more you're likely to have when you stop working.

In the illustration below, Sarah started saving in her retirement plan at age 25. She contributed $1,200 per year for 40 years. At age 35, John started saving by contribution $1,600 per year for 30 years. While they both contributed the same amount of money, Sarah has a larger account balance. This is because she started early and compounding worked to her advantage.

Growing your retirement account

	Total Contribution	Earnings	Account Balance
Sarah: Age 25; $1,200 annually for 40 years	$48,000	$224,539	**$272,539**
John: Age 35; $1,600 annually for 30 years	$48,000	$120,896	$168,896

This is a hypothetical example used for illustrative purposes only. It assumes amounts are invested annually, an average annual total return of 7%, and monthly compounding. It does not represent the result of any particular investment. Your results will be different. Amounts are rounded to the nearest dollar.

> Prioritizing retirement savings early in your career, and maintaining that focus, can help you achieve your financial goals.

If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.