Put Time on Your Side with the Power of Compounding

Sometimes people put off saving for retirement because so many other things seem to get in the way. Do you find yourself among them? If so, try to overcome the urge to procrastinate and start saving as soon as possible. When it comes to investing for long-term goals, time can be a powerful ally.

Time and Investment Returns

The reason time can work for you is because of a concept called compounding. The idea behind compounding is simple—when your investment earns money, this amount is reinvested in your account and potentially generates more earnings. Over time, this process can increase the growth potential of your original investment. If your earnings are reinvested for a long enough period, compounding can reduce some of the pressure on you to invest greater amounts as you approach retirement.

The power of reinvested earnings partly explains why some people who start investing early in their careers often end up with more money than people who start later, even if their total contributions are less.

Your Money at Work

Here's how compounding works:

- The money you contribute to your plan is invested.
- When your plan investments generate earnings, those earnings are added to your account and reinvested.
- As your account now contains your contributions plus your earnings, you may have the opportunity to generate even more earnings on those invested funds.

Increasing the amount you are contributing to your plan also increases the potential benefit you may realize from compounding. Of course investment returns are not guaranteed, and you could lose money. However, a program of steady investing can give your retirement plan savings the potential to grow through compounding.

Boosting Contributions Can Help

Monthly Pretax Contribution	Account Balance After 20 Years	Account Balance After 40 Years
$100	$46,204	$199,149
$200	$92,408	$398,298
$300	$138,612	$597,447

Source: DST Systems, Inc. Amounts shown are before taxes. Distributions of pretax contributions and earnings on those contributions will be subject to income tax. These are hypothetical results involving a retirement plan participant making the monthly pretax contribution indicated for the specified time periods and earning a 6% average annual total return, compounded monthly. These results are not representative of any specific investment. Your investment returns will differ, and your contribution amount is not likely to remain the same over an extended period.

Compounding with Every Paycheck

Your employer-sponsored plan may be one of the most convenient ways to make compounding work for you. Every paycheck, you have a new opportunity to add to your retirement savings. For 2018, you may be able to contribute a maximum of $18,500 (check with your employer because some organizations may impose lower limits). If you are age 50 or older, you may also have the opportunity to save up to $6,000 more. Even if you cannot afford to invest the maximum amount, try to do as much as you can.

Of course, you can't benefit from compounding if you don't stay invested. Withdrawing money during your working years could wipe out or reduce the savings you have accumulated, which would reduce some of the benefit of compounding. So don't procrastinate. Consider saving as soon as possible to take advantage of what compounding can potentially do for you.

Keep It Going

Remember, compounding can work only if you give it time. Stopping your contributions for a period of time or borrowing from your plan (if your plan permits loans) can slow things down. If you missed starting early, you can still put the power of compounding to work by not waiting any longer to start saving more for your future.