Saving for retirement

How to balance today's needs with tomorrow's goals

Life is full of choices. House chores or a Sunday nap, a Caribbean cruise or a "staycation," French fries or a side salad? In our financial lives, we also face tough decisions — choices that can make saving for retirement challenging, especially when it means juggling more immediate demands on your money, such as college expenses, credit card debt, or saving for a car and/or house. To help you balance today's needs with tomorrow's goals, this issue of *Educated Investor* looks at these challenges and offers tips to keep your retirement savings on track while meeting your needs today.

Getting started

Too young to think about retirement? Think again.

Compound interest arises when interest is added to the principal of a deposit or loan, so that, from that moment on, the interest that has been added also earns interest.

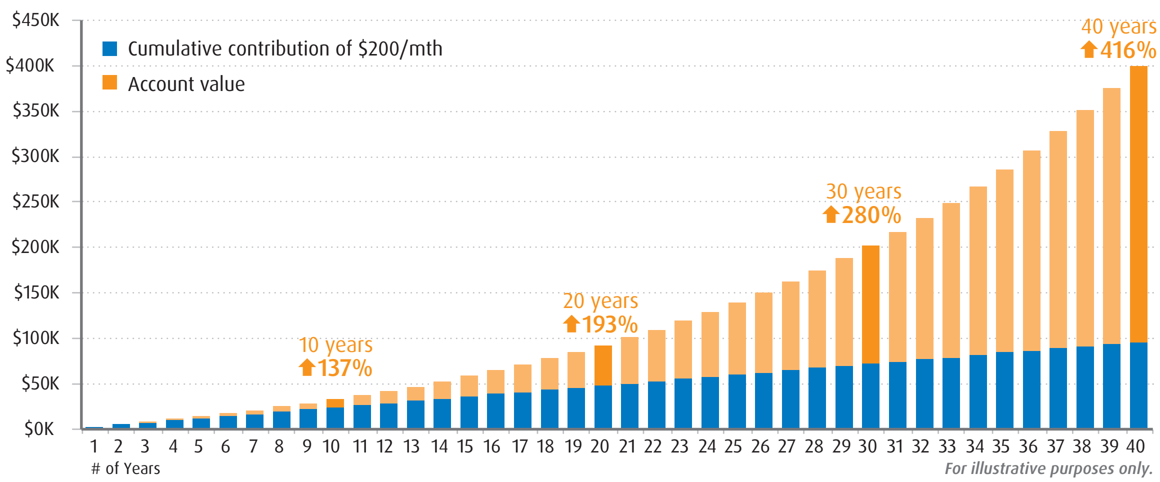
Wikipedia, The Free Encyclopedia

For many people in their 20s and early 30s, everyday costs can get in the way of planning for retirement. There are school loans to pay, rent checks to write, and then there's your social life! Even though retirement seems like eons away, don't put it on the back burner.

When you're in your 20s and early 30s, time is your best friend when saving for long-term goals like retirement. That's because the longer you have to invest, the greater the benefit of compound interest. It's easier to save smaller amounts over a longer period of time than it is to play catch-up later. To understand how, consider the following hypothetical example.

If you save just $200 a month in your retirement plan starting at age 25 and receive a 6% average annual return, your account value at age 67 would grow to $447,417. If you put off saving until age 35, your account value would only grow to $249,525, saving $200 per month. To accumulate the same savings starting at age 35, you need to save $387 per month. Compounding interest is your best friend. This only considers **your** contributions. Imagine the amount if your employer makes contributions and you regularly increase your contribution.

Tax deferred retirement saving with compounding interest at 6%



Leverage the years.

So how do you manage your money so you can maximize the benefits of your retirement plan? Here are five tips to help keep your savings on track in your 20s and early 30s.

1. Make a budget.

It may seem basic, but it's important to start budgeting and saving while you're young. By doing so, you'll form good financial habits early on, which will pay off in the years to come. Determine how much you need each month for your bills, how much you need for fun and how much you'll need to save for the future. The best way to get started is to track your spending for a month or two, then adjust your budget accordingly and stick to it. That way, if you have to choose between buying a brand-new car and paying off your student loans, you'll make sure you're making the right decision for your personal circumstances. To help you assess whether you're saving enough for retirement, go to **mybmoretirement.com** for an easy-to-use *Retirement Savings calculator*.

2. Pay yourself first.

Don't let current expenses distract you from what matters most: your future. If you haven't enrolled in your retirement plan, do it now. Have a set amount of pay sent straight to your retirement plan every payday, and if your employer offers matching contributions, make sure you contribute enough to take full advantage of the match. To understand the impact contributing at different levels has on your take-home pay, try the *Salary Deferral Take-Home Pay calculator* on **mybmoretirement.com**.

3. Create an emergency cushion.

Begin setting aside money in a risk-free savings account that you can easily access in case something happens. Your goal should be to accumulate enough money in this account to cover six months of household expenses. This will help protect you against the unexpected, such as unforeseen car or home repairs, or unreimbursed medical or dental expenses.

4. Avoid the credit card trap.

It's easy to build up debt, especially when you're already making do on a starting salary. However, taking on a large amount of credit card debt will only add to the challenge of making ends meet. Equally important, it may also reduce the amount of money you'll have to set aside for your future. Avoid carrying a credit card balance from month to month. If you have outstanding balances on several cards, focus on paying off the ones with the highest interest rates first.

5. Keep your eye on the prize.

There'll be times when you feel like your not-so-giant-paycheck isn't enough. Whatever you do, remember the benefits of compounding interest on your contributions. Contributing consistently to your plan is the best way to ensure your financial security for the future. Every dollar you divert to other needs will make it that much harder for you to catch up later on.

Contributing to your retirement plan at work should be a top goal, no matter your age. Don't think of it as subtracting money from your paycheck. Rather, consider those contributions as automatic payments to your future self. Years from now, when you're closer to the retirement of your dreams, you'll be glad you did.

Use this ***Savings Planner*** to see if you're on track to meeting your goals or if you have a retirement shortfall.