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RETIREMENT, PERSONAL FINANCE

Preparing for retirement in your 20s and 30s: 3 ways to help max your savings

Getting into the habit of saving now, can really pay dividends later.

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Whether you're a recent college grad, your career is in full gear, or you have a young family, there's one crucial step you can take to help ensure a healthy and happy retirement: start saving.

Even saving a little can make a big difference. Why? Because of the power of compounding. Right now, time is truly on your side.

The benefits of compounding interest

Here's an example¹ of compounding interest over a period of time. Compound interest – which is the interest you earn on your principal sum plus previously accumulated interest – can have a dramatic effect on the value of money over time. Let's say you start saving now for 10 years, and then you stop. When you retire, you'll have \$91,880 in savings. That's \$30,000 more compared to someone who waited 10 years to start and saved for 20 years. Though you saved money over a shorter period, it had more time to compound. That's why saving now is key.

Early starter

Saved for 10 years,
then stopped

\$12,480

\$79,400

\$91,880

Late starter

Waited for 10 years to
start, then saved for
20 years

\$24,960

\$60,457

\$35,497

 Deferral basis

 Investment gain

There are many different ways to save. And there are simple things you can do to find extra money in your budget. And you don't have to cut out the things you love.

For example, if you made coffee at home, packed your lunch or dropped some premium channels – you could re-direct some real money into your savings.

Remember, saving for retirement is not selfish, so pay yourself first. (Your future self will thank you.) Here are some simple things you can do to start saving and save even more, as well as other retirement planning tips to consider in your 20s and 30s.

Create good savings habits

To set yourself up for financial success over the long term, you need to get into the habit of saving. Here are some easy tips to help you do that.

Create a budget

Do you know where your money is going? By tracking your spending, you can make adjustments and set aside extra money for your retirement savings.

Pay yourself first

Be sure to keep paying yourself first by putting money off the top into your retirement savings – you won't even know it's gone. There are plenty of apps to help you budget. Your bank probably offers online tools too.

Save often

Have any "leftover" money at the end of the month, once you've paid your bills? Consider putting that into savings – instead of spending it. Also, increase your savings as

you get raises at work. If you can, start putting away money for your child's education. There are different types of college savings plans to consider that may also provide tax advantages.

Save early

This gives your money time to grow, or compound. Compounding happens when your investments earn money, and then that additional earned money is reinvested – and earns more money. Take advantage of this growth potential.

3 ways to save even more for retirement

Cheers! You're already in the habit of saving. Wondering how you can save even more?

Enroll in your company's retirement plan (if you haven't already)

Does your employer offer a retirement plan, like a 401(k)? Sign up if you can. This is a great way to automate your savings and it's not as difficult as you think.

Your company may also offer matching dollars. Take advantage of this free money. For instance, if your employer offers a five-percent match, it means they will contribute the same amount to your account that you do, up to five percent of your salary. (You may be able to contribute more, of course, but only the first five percent will be matched.)

In other words, your employer is offering you extra money. Think of it as additional salary. Or a bonus. Now ask yourself – if you're not contributing to your 401(k) – why are you leaving that money on the table?

Contributing to a 401(k) plan also offers great tax benefits since your money goes in tax free. The amount you choose to contribute to your 401(k) is deducted from your paycheck before taxes are taken out.

As a result, you're paying taxes on a smaller portion of your salary and your overall tax rate may be lower. Be aware there are limits to how much you can contribute to your 401(k) in any given year. Check the contribution limit periodically, as it can change periodically.

Gradually increase your 401(k) contribution

Try and raise the amount you contribute in your plan over time. If you get an annual raise, aim to increase your percentage by one percent. Aim to eventually invest 10-15 percent of your income in your retirement plan.

Understand your options

If you switch jobs or terminate employment, you have options:

- leave the money in the former employer's plan.
- roll over assets to the new employer's plan.
- roll over assets to an IRA, or cash out.

Consider speaking with a financial professional and tax advisor when making this decision as there may be tax consequences and/or penalties to certain available options.

Understand the value of diversification. You have time to weather market ups and downs. Invest according to your risk tolerance and stick to your investment objectives.

Don't let debt weigh you down

Getting your debt under control is also critical for your financial wellness. That's because it can prevent you from affording things later on, eats up extra income — and leads to bad credit, which could make it difficult to qualify for a mortgage loan if you want to purchase your first home or upgrade to a bigger home.

Here's how you can knock down your debt.

Use credit wisely

Credit cards are convenient, but it's important to pay more than the required monthly minimum payment. Otherwise, you could be saddled with double-digit interest. If you have multiple credit card balances, pay off your higher interest cards first.

Live within your means

Be smart about how much house you buy. Childcare is expensive, so research all your options and make a decision you feel comfortable with. Also, learn all about your health insurance coverage to avoid unexpected bills. Be honest with yourself about wants versus needs — cut out unnecessary expenses.

Pay off student loans

Balance paying off high-interest credit cards with student loan debt. You may be able pay off your loan faster by making extra loan payments (without penalties). Refinancing options may also exist.

Set up an emergency fund

Life is unpredictable. But you can plan for the unexpected – like a simple flat tire repair or if you break your leg snowboarding and can't work. Set aside enough money to cover three to six months of your expenses. Avoid dipping into your 401(k) for an emergency.

Review your life insurance needs

Now is also a good time to think about life insurance, especially if you have young children. Caring for their basic needs gets more expensive with each passing year. Add to that the costs of childcare and schooling.

Life insurance can help your family maintain its lifestyle and protect your assets if you were to pass away. It's a good idea to consult a financial professional to determine which of these options is right for you:

- Term: coverage for a specific period of time
- Permanent: lifetime protection with potential cash value growth

Consult a financial professional

Even though retirement may seem ages away, start saving today – or find a way to save a little more.

You don't have to figure out all this financial stuff by yourself, talk to an expert. A financial professional can help you establish good money habits now – when you're young.

They can help you ensure your retirement investments are the right mix and map out a plan to help meet your long-term financial goals. And they can make life insurance recommendations or suggest other investment vehicles that may be right for you.

