Accumulation Goals

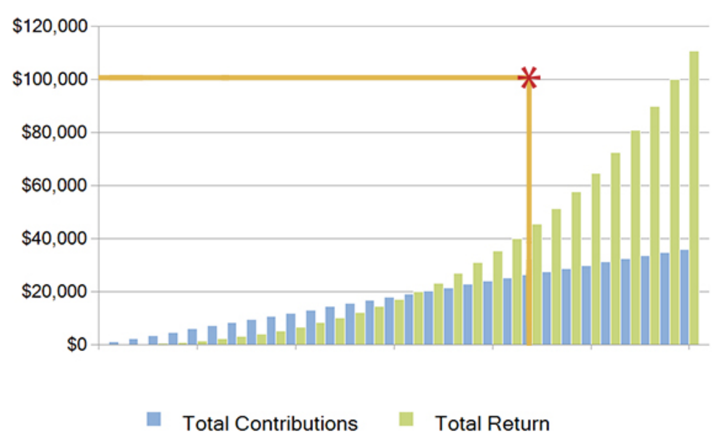
Four Key Factors

A savings plan to reach an accumulation goal has four distinct, yet interrelated, factors, each of which contributes to the success or failure of the plan.

- **Contribution amount:** How much is being saved? Should more or less be put aside? Is inflation being considered in future contribution amounts?
- **Rate of return (ROR):** How much is being earned in interest, dividends or capital growth? Can a higher return be earned, without greater risk? How is the growth taxed?
- **Time frame:** How much time remains to reach the goal? Can the time frame be shortened or should it be extended? Compound interest will have its greatest impact in later years. Adding a year or two (or more) can be a tremendous help.
- **Amount of the goal:** Can the goal amount be adjusted? How much is really needed? Sometimes the most difficult factor to adjust is the goal amount, due to an emotional attachment.

A Hypothetical Example[1]

Consider the following example, illustrated graphically below. A couple wants to accumulate $100,000, 20 years from now, to purchase a vacation home. They are currently saving $1,000 per year and earning 7% per year on their savings. At this rate of savings and growth, at the end of 20 years they will have accumulated $43,865 – well short of the goal. As the graph indicates, they could achieve their goal by continuing to save for 10 more years. They don't, however, wish to wait that long.



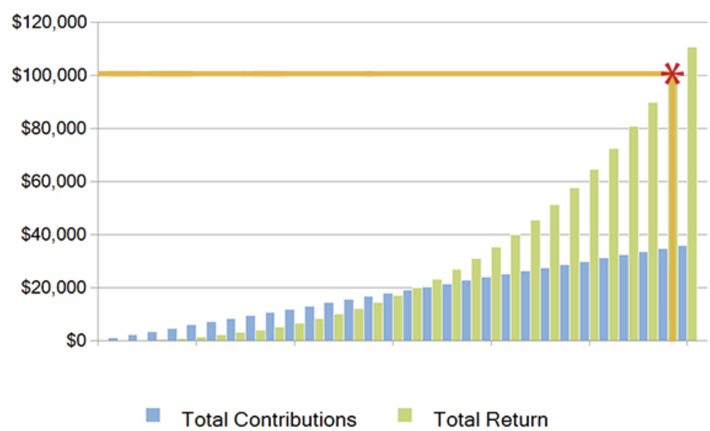
[1] The rates of return shown are not indicative of any particular investment and will fluctuate over time.

Small Changes

Now consider how a few coordinated changes can make a difference to the success of the plan. If the couple makes relatively small changes to each of the four factors, the goal can be met. The graph below illustrates the effect of making the following four adjustments:

- Increase their annual contribution to $1,200 – a 20% increase; and
- Reallocate their savings to earn an 8% ROR – a 14.3% increase;[1] and
- Plan to save for an additional four years – a 20% increase; and
- Reduce the goal from $100,000 to $85,000 – a 15% decrease.

With all of these changes, the couple is now on track to meeting their goal. There are, of course, any number of change combinations that can be applied to this example. The right combination will depend on the individuals involved and the importance of the objective.



[1] A higher rate of return generally involves a greater degree of volatility and risk.

Important Notice

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