

# Money for Life

September 2008

Dear Readers,

As fall rolls around, many families shift back into a more structured routine, after the casual and spontaneous summer season. That shift often includes finances – moving back toward more careful planning if summer has led to a little carelessness. That makes fall a great time to review your financial plans for retirement – or begin making plans, if you haven't done so in the past.

**No matter what your age, now is the time to prepare and save for retirement.**

**Young adults** investing for the long term can make tremendous progress. A 22-year-old who invests \$2,000/year every year through age 66 will invest a total of \$90,000.

Since they're investing for the long term, they can invest more aggressively - suppose their investment earns an average annual return of 10%.

The result of \$90,000 investment? **\$1,500,000!!**

*Note: planning for a 10% rate of return may seem unrealistic these days, given the poor recent stock market performance. However, the long-term return of the stock market does stand at over 10%/year, so it is not out-of-line for a long-term investor to consider a 10% return!*

*However, even projecting more conservatively (8%), the investor above would yield \$775,000.*

What if that young adult had waited till age 32 to start? That would mean they would invest for 35 years - a total of \$70,000.

Their result (at 10%) would be **\$596,254**. Still a valuable contribution to retirement. But when you compare the two examples, it's clear that starting as early as possible does make a big difference.

“That’s all fine,” you say “but I am way past 22 and even 32.” Good news: **now** is still the right time!

**Middle Age.** Suppose you're 52. You may choose less aggressive investments, since your time frame

is shorter - let's estimate a 7% average annual investment return.

\$2,000/year, earning 7%, for 15 years will yield over \$50,000. That's not enough to fund your entire retirement, but it sure would be a nice chunk of extra money. If you invest it at 6% after retirement, that \$50,000 could add \$300/month to your retirement income for 30 years! Or it could be set aside for major expenses: necessities like a new roof, or luxuries like a special trip.

**Pre-Retirees.** Even if you have only 5 years till retirement, it is definitely worth saving. Suppose you save \$2,000/year, and invest more conservatively - we'll estimate a 6% return. Your result would be \$11,274. If you save \$3,000/year in those last five years, you will accumulate \$16,911. Either way, it will be extra money you'll be thankful for later on.

It's never too early and it's never too late to save for retirement!

**IOWA STATE UNIVERSITY**  
University Extension

