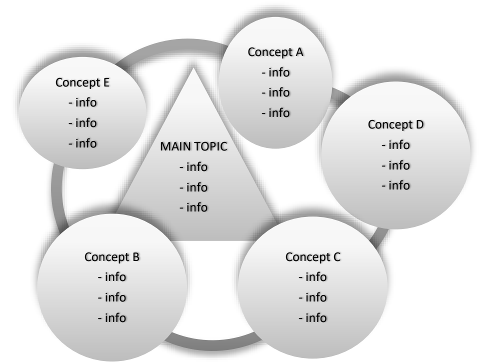
SmartArt: The Cost of Waiting

Why College Grads Should Start Saving for Retirement Now



More than half of Gen Y say they plan to retire on schedule – yet 48 percent are no longer saving, 33 percent have stopped saving for retirement and 27 percent are piling on credit card debt. This is according to the latest Investor Index survey released by TD Ameritrade Holding Corporation

Given the challenging job market greeting 20-somethings as they accept their diplomas, saving for retirement may be the last thing on their minds – when it should be one of the first. Why? Starting now can allow young professionals to pad their growing nest eggs with the power of compounding interest. Here's how:

- A new grad starts investing $100 per month, beginning at age 21, and continues that monthly investment for the next 20 years, stopping at age 41. The total investment before interest is $24,000.
- Assuming a modest 8 percent annual return, compounded monthly, that $24,000 will become $471,358 by the time the grad retires at age 67.

Likewise, starting late could cost thousands – or even hundreds of thousands – of dollars. Here's how:

- A new grad waits until age 41 to begin investing $100 per month and continues that monthly investment for the next 20 years, stopping at age 61. The total investment before interest is again $24,000.
- However, assuming the same 8 percent annual return, compounded monthly, the nest egg will only total $59,295 by age 67.

In this case – getting a late start cost the grad more than $412,000.

"The truth is, cutting savings in favor of more spending and more debt could derail retirement for Gen Y, but it doesn't take much to get back on track," said Stuart Rubinstein, managing director of online engagement at TD Ameritrade, Inc. "Ask yourself whether you would rather invest $100 a month – one gourmet coffee per day – at 21, or $1,000 a month at 41. Simple steps, like investing early can help new grads take advantage of the power of compounding, and ultimately enjoy more freedom and flexibility later in life."

So how can today's graduates get a head start on retirement? Rubinstein offers the following five tips:

1. Save regularly – It's never too early to start. As soon as you start receiving a paycheck, save a portion of it regularly, even if the amount is minimal. Compounded over time, the savings will add up and come in handy for major purchases, such as a new car, a down payment on a home or a deposit on a first apartment.

2. Establish a budget – Track your monthly income and expenses, both the "needs" and "wants," and plan accordingly. This will show what you can realistically afford and help you avoid racking up credit card debt.

3. Take advantage of employer-sponsored plans such as a 401(k) – These employer-sponsored retirement plans deduct money from your paycheck, before taxes, and make investing easier. Many employers also offer programs that match some of your contributions, so take an interest and ask.

4. Continue your education – You don't have to go back to school, but educating yourself on money trends will help you become more financially savvy over time. Subscribe to a financial magazine or podcast, visit a financial Web site, or follow a credible financial blog.

5. Make a financial plan – Determine your long-term goals and use a free calculator to help assess your financial situation and develop an action plan to pursue your goals.