Brinker Capital

Retirement Plan Services

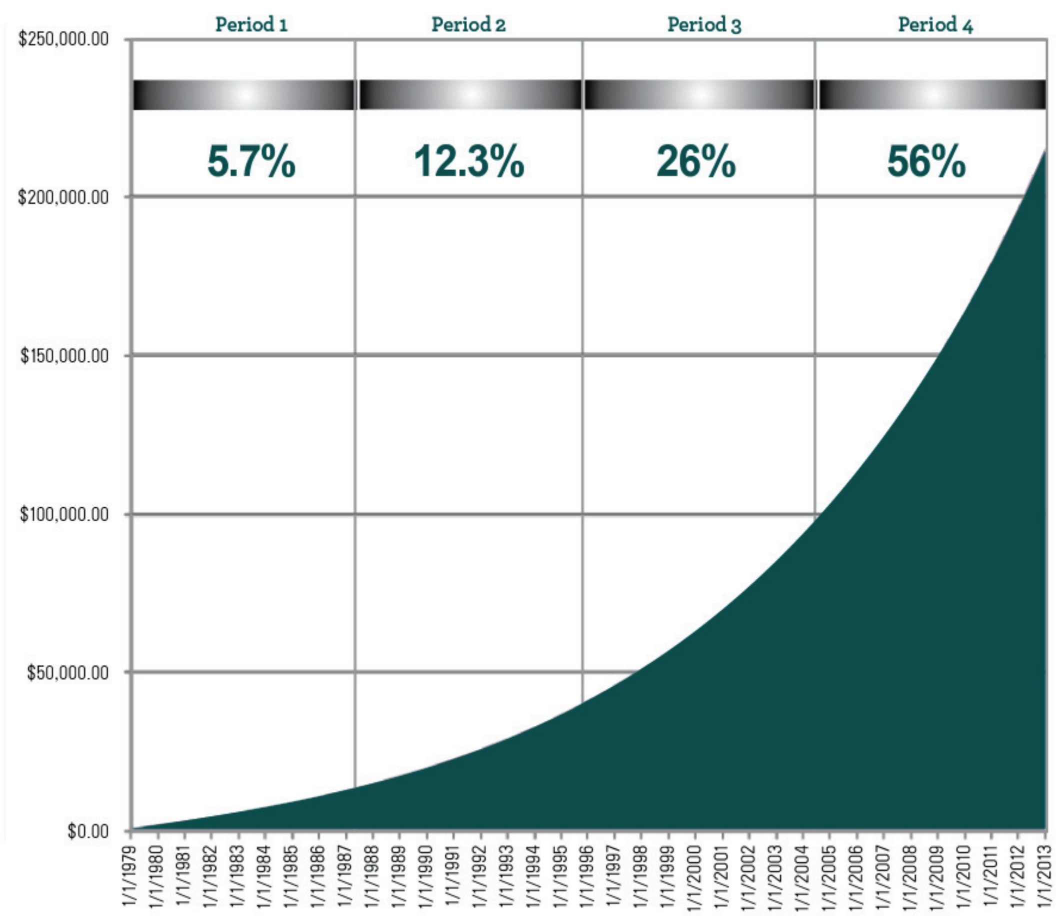
Why is it so hard to save for retirement?

There are perhaps several reasons why saving for retirement is challenging – unpredictable markets, finding the "extra" money to invest, or simply having enough patience to commit to a long-term program.

Would you invest $62.25 a month over 35 years if you had an opportunity to have $233,588 at retirement? If you are in a 25% tax bracket and defer $83.33 per month it would be equivalent to $62.25 after taxes. While there are no guarantees with regard to the performance of the stock market, the worst 35-year period for someone contributing $83.33 per month since 1926 would have been a return greater than $233,558.

What makes contributing so difficult is that often times it appears as though your account balance isn't growing fast enough or has experienced a loss. The graph below helps to better understand the "magic" of compound interest. Compounding takes time, and most of the growth or gains do not occur until late in the investment period. Unfortunately, however, it is these early years that provide the necessary, and usually irreplaceable, foundation for compounding to produce the results that we are looking to achieve.

If we break the graph down into four periods totaling 35 years, we would see that the first period only produces about 6% of the overall gain. The next period produces about 12% and the third produces 26%. It isn't until the final period of time that we start to really appreciate the value of compounding when we see that this 8 ¾ years accounts for about 56% of our total gain. Of course the only way that this was achieved was to start contributing $83.33 per month and having the patience and belief that over time, the stock market will produce long term results that are similar to what we have seen in the past. Participant's account may vary significantly depending upon the type of portfolio they choose to invest in.



This chart is for illustration purposes only and does not represent past, current or future performance on any specific client account. The portfolio represents an initial $1,000 and a subsequent annual deposit of $1,000 at the end of each year for thirty-five years with a 9% rate of return annually. Taxes and inflation are not considered in the analysis. Past performance is no guarantee of future results.

Source: Brinker Capital