

BUILDING BLOCKS FOR RETIREMENT

Retirement Planning Essentials

The Power Of Compounding

Quick quiz. Two investors contribute the same total amount of money to their retirement accounts and earn the same average annual total return on their investments. Will their account balances be the same? Not necessarily.

A Tale Of Two Savers

Here's an illustration using two hypothetical retirement plan participants:

- At age 25, Elayna starts contributing \$200 a month to her retirement account and continues throughout her 40-year career (a total of \$96,000).
- Eddie doesn't get started until he's 45, but he contributes \$400 a month for the next 20 years (also a total of \$96,000).
- Both earn an average annual total return of 6% on their investments (compounded monthly).
- Elayna's balance at age 65 is \$398,298.
- Eddie's balance at age 65 is \$184,816.



Why the big difference? Time and compounding. Because Elayna started to save so much earlier than Eddie, she was able to put the power of compounding to work for a longer period of time.

What's The Secret?

Here's how compounding works. The contributions you make to your retirement account are invested. Any earnings your investments generate are reinvested in your account. You then have a bigger pot of money — contributions plus earnings — which means you have the opportunity to generate even more earnings. Repeat. Compounding is generating earnings on your investment earnings.

Pick Up The Pace

It stands to reason that the more you contribute, the more you may potentially benefit from compounding. And although investment returns are not guaranteed, steady investing gives your retirement plan savings the potential to grow through compounding. Years'



worth of regular plan contributions plus investment earnings plus compounding can help you build the balance you'll need for retirement.

Don't Stop

Remember, the power behind compounding is time. Try not to stop making contributions, even for a short period. You may have trouble getting back in the habit of contributing. And if you're more like Eddie than Elayna, don't worry. You can still put the power of compounding to work. Just don't wait any longer to start saving for your future.

Give Compounding A Boost

What if Elayna had been able to increase her retirement plan contribution from time to time? Here's how her account would look if she'd found an additional \$50 a month to contribute every so often.

Age	Per Month	Increase
Age 25 - 35	\$200	\$0
Age 35 - 45	\$200	\$250
Age 45 - 55	\$200	\$300
Age 55 - 65	\$200	\$350
Account balance at age 65	\$398,298	\$479,820

The information is hypothetical and is used for illustrative purposes only. It assumes an average annual total return of 6% (compounded monthly) and is not intended to show the performance of any particular investment. Actual returns cannot be predicted and will vary. Income taxes will be due on accumulated amounts when received from the plan.

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