# IT'S NEVER TOO EARLY TO PREPARE FOR RETIREMENT

*The earlier you start planning, the more you can benefit*

*When you look to the future, we want you to see endless possibilities. Living life to the fullest, however, takes resources and careful planning.*

As you start your career, retirement may seem like a distant financial goal that can easily be put off. Why start saving and planning for retirement now? Especially when there are more pressing financial goals and obligations to worry about such as paying off student loans, saving for a home or preparing for a new family?

## YOU HAVE MORE TIME TO SAVE

The fact that you have a long time horizon until retirement is one of your biggest advantages. The younger you are when you begin saving, the more time you have to let the compounding effect of market returns work in your favor. For instance, if you wanted to have a portfolio worth a specific dollar amount at age 65 (assuming the investments earned 7% annually), and you started at age 35 rather than age 45, the amount you would need to save each month would be reduced by half. If you started at age 25, rather than age 45, you would only need to save 1/5 as much to reach the same amount. This simple example clearly illustrates that letting a long time horizon work in your favor is one of the most powerful tools available to an investor saving for retirement.

## YOU HAVE MORE TIME TO MANAGE VARIABLES

In addition to taking advantage of the long time horizon, you also have the time to learn how to focus on what you can control. The key factors in this area are: savings rate, tax efficiency, investment fees, investment temperament and your expenses.

### *Savings Rate*

If you are fortunate enough to have a company retirement plan like a 401(k) or a 403(b) that provides any kind of a match to your contributions, we believe you should take full advantage of this benefit. At the very least, contribute enough to get the full match. Think of the matching contribution as free money going towards your retirement. If you can't put in enough to get the full match today, contribute as much as you can, and create a plan to incrementally increase your contributions to get yourself to that point quickly. The plan may be as simple as taking any future raises and having them go towards your increased retirement plan contributions. Another idea might be to increase your contributions by a set percentage or dollar amount every quarter, six months, or year. By incrementally increasing your contributions, the additional savings won't seem like a big sacrifice. Don't stop at putting just enough to get the full company match. Remember you can also save into a taxable account, too. Work with a financial advisor to see how much more you should be contributing to achieve your retirement goal.

### *Tax Efficiency*

One major benefit to retirement plans is that they grow your investments on a tax deferred basis. This helps you become more efficient with your biggest expense: income taxes. Every dollar that you save continues to compound for you and over time your wealth can multiply in a material way. The longer you are able to defer taxes, the more the compounding effect can work for you.

Another way to be tax efficient is through strategic asset location in your investment accounts. Some asset classes are more tax efficient than others. By placing your tax inefficient investments in a tax deferred account and the tax efficient ones in your taxable account, fewer of your investment dollars should be paid in income taxes. It's important to work with a financial advisor on the asset location of your investments because this can be a tricky area of investing. It requires knowledge of income taxes and coordination of the construction of your aggregate investment portfolio (both the taxable and tax deferred accounts).

### *Investment Fees*

Be mindful of investment fees. Make sure that investment fees are worth the price that you pay for them. It stands to reason that the less you pay in fees, the more of your investment portfolio you have working for you.

At Northern Trust, we like to think in terms of triple net returns. Those are returns after taxes, fees and inflation have been factored in. It's the triple net return of your portfolio that you can spend in retirement.

### *Your Investment Temperament*

Starting to save for retirement earlier rather than later can help you figure out your investment temperament, too. It enables you to work with a financial advisor so you can ascertain what your risk tolerance is to market changes. How do you feel about the constant ebb and flow of financial markets? Sometimes this is referred to as your "sleep well" factor. This can change over time as your situation changes, but you are much less likely to react emotionally to market volatility if you have a long-term outlook and an understanding of how you are working toward achieving your goals.

### *Your Expenses*

Another area that you have some control over is your expenses. It's not what you make but what you keep. Putting the focus on retirement early helps you emphasize monitoring your expenses. Of all the drivers of success or failure in saving for retirement, expenses are one of the largest. Every dollar that is spent is one that can't go towards saving. It is also a dollar that can't work for you and be compounded. Creating a spending plan that coordinates with your retirement savings plan can be one of the most effective financial planning exercises you can undertake. This plan can provide you with a road map that will help you get closer to your retirement goal.

## FOR MORE INFORMATION

Starting your career is an exciting time. There are many financial challenges in the short term and the long term, and there are many opportunities that this long time horizon provides as well. Working with a financial advisor can help you maximize those advantages and guide you down the right financial path from the start. To learn more, contact a Northern Trust professional near you or visit northerntrust.com/retirewell.