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Investing: Small Steps Today Can Help Brighten Your Future

You've made a smart, forward-thinking move investing your time and resources in your education. There's just one more step you need to take to ensure you stay on track to the future you envision for yourself: commit to investing.

When you start investing while you're young, you give yourself a head start on building your wealth for life. Here's an example from The College Investor that illustrates this point:

> If you start investing with just $3,600 per year [$300/month] when you're 22, assuming an 8% average annual return, you'll have $1 million at age 62. But if you wait until you're 32, you'll have to save $8,200 per year [$683/month] to reach that same goal.[1]

That's a sound argument for investing as soon as you can. But where do you begin?

One of the most common ways people start investing is through a 401(k) plan, which employers often make available to employees as a way to save and invest for their retirement on a tax-deferred basis. If your employer offers you this benefit, you can specify the percentage of income you'd like to have deducted from each paycheck, and your employer (the plan sponsor) will automatically deduct and deposit that contribution into your 401(k) plan. Then you have the opportunity to choose how you would like your money to be invested across various options your employer will explain to you.[2]

Note: Annual limits are imposed by the IRS on the amount an individual may contribute to their 401(k). The 2018 limit for people 50 and under is $18,500.[3]

401(k) plans tend to be attractive to people for several reasons:

1. They help you stick to the established financial principle of "paying yourself first," which ensures you're saving by directing money from your paycheck into your retirement plan before you even see it.
2. 401(k) contributions are made with "pre-tax" dollars: In other words, your employer does not claim the dollars designated for your 401(k) as taxable income; you don't pay income tax on the money until you begin making withdrawals.[4]
3. Sometimes employers offer a match, meaning they may contribute dollars to your 401(k), too. Depending on the guidelines of your employer's specific plan, they may offer to match your contributions up to a certain percentage (some contribute dollar-for-dollar, others 50 cents on the dollar, up to a specified percentage — say 6% — of your salary). It's important to understand the details of your employer's plan so that you choose a contribution percentage that enables you to take full advantage of this free money.[5]

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When you interview for jobs, ask potential employers if their company offers a 401(k) plan and, if so, whether they offer a match. This is an important benefit to look for as you establish yourself with a company. If the employer you choose to work for does not offer a 401(k), then talk with a financial advisor about how you can set up your own retirement savings account. Once you get started, you will be amazed at how easy it is to save, invest and build your wealth for the future!

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Sources
1 "How to Start Investing After College for 22-29 Year Olds," The College Investor, November 15, 2016
2 401khelpcenter.com, 2018
3 "IRS Announces 2018 Pension Plan Limitations," irs.gov, October 19, 2017
4 "Ultimate Guide to Retirement," CNN Money, 2018
5 "The New Employer 401(k) Match: How Generous Is Your Boss?" *Forbes*, February 5, 2018

The example provided is for illustrative purposes and does not represent a specific investment.
Investing involves risk including possible loss of principal.