Retirement Plan Considerations at Different Stages of Life

Throughout your career, retirement planning will likely be one of the most important components of your overall financial plan. Whether you have just graduated and taken your first job, are starting a family, are enjoying your peak earning years, or are preparing to retire, your employer-sponsored retirement plan can play a key role in your financial strategies.

How should you view and manage your retirement savings plan through various life stages? Following are some points to consider.

Just Starting Out

If you are a young adult just starting your first job, chances are you face a number of different challenges. College loans, rent, and car payments all may be competing for your hard-earned yet still entry-level paycheck. How can you even consider setting aside money in your employer-sponsored retirement plan now? After all, retirement is decades away — you have plenty of time, right?

Before you answer, consider this: The decades ahead of you can be your greatest advantage. Through the power of compounding, you can put time to work for you. Compounding happens when your plan contribution dollars earn returns that are then reinvested back into your account, potentially earning returns themselves. Over time, the process can snowball.

Example(s): Say at age 20, you begin investing $3,000 each year for retirement. At age 65, you would have invested $135,000. If you assume a 6% average annual return, you would have accumulated a total of $638,231 by age 65. However, if you wait until age 45 to begin investing that $3,000 annually and earn the same 6% return, by age 65 you would have invested $60,000 and accumulated a total $110,357. Even though you would have invested $75,000 more by starting earlier, you would have accumulated more than half a million dollars more overall

That's the power you have as a young investor — the power of time and compounding. Even if you can't afford to contribute $3,000 a year ($250/month) to your plan, remember that even small amounts can add up through compounding. So enroll in your plan and contribute whatever you can, and then try to increase your contribution amount by a percentage point or two every year until you hit your plan's maximum contribution limit. As debts are paid off and your salary increases, redirect a portion of those extra dollars into your plan.

Finally, time offers an additional benefit to young adults — the potential to withstand stronger short-term losses in order to pursue higher long-term gains. That means you may be able to invest more aggressively than your older colleagues, placing a larger portion of your portfolio in stocks to strive for higher long-term returns.

Getting Married and Starting a Family

You will likely face even more obligations when you marry and start a family. Mortgage payments, higher grocery and gas bills, child-care and youth sports expenses, family vacations, college savings contributions, home repairs and maintenance, dry cleaning, and health-care costs all compete for your money. At this stage of life, the list of monthly expenses seems endless.

Although it can be tempting to cut your retirement savings plan contributions to make ends meet, do your best to resist temptation and stay diligent. Your retirement needs to be a high priority.

Are you thinking about taking time off to raise children? That is an important and often beneficial decision for many families. But it's a decision that can have a financial impact lasting long into the future.

Finally, as you make decisions about your plan on the road to retirement, be sure to review it alongside your other savings and investment strategies. While it's generally not advisable to make frequent changes in your retirement plan investment mix, you will want to review your plan's portfolio at least once each year and as major events (e.g., marriage, divorce, birth of a child, job change) occur throughout your life.

We're here to help! Contact Sentinel Benefits & Financial Group for the guidance you need.

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