

Time Really *is* Money

Whether you are employed or self-employed, when it comes to money, time is probably the most important factor in the growth process. The amount you will have accumulated when retirement comes will determine what kind of lifestyle you will then be able to afford.

- If you are forty-five and start putting \$100 a month into an account that averages a 10 percent return, you will have \$71,888 by age sixty-five.
- If you start ten years earlier, at thirty-five, your \$100 a month will have grown to \$206,440 by age sixty-five.
- If you can start saving \$100 a month at age twenty-five, you will have \$555,454 by age sixty-five.

Time accounts for the difference. For every year that you wait to invest your money, it costs you about \$25,000 a year of future growth.

When choosing a retirement plan, consider...

- The maximum amount you can contribute annually
- Administrative complexity and costs
- Tax benefits

Compounding

Time plays an essential role in building your future wealth, not only because the longer you contribute, the more you will have, but also because with time, the contributions you have already made will do more work for you. This second feature that makes time so powerful is called *compounding*. When you leave your money invested over time, the amounts of money that your contributions are generating on their own are the worker bees of your money hive. For instance, suppose you are investing \$6,000 a year, and that \$6,000 is earning 8 percent. We will assume that your investment will be able to average that 8 percent over the next twenty years, and that you continue to add \$6,000 at the beginning of every year as well. There will come a point in time when the earnings on your account will add up, by themselves, to more than the \$6,000 you are putting in every year. This is when those worker bees really start to make that money into honey.

Looking at the following chart, you will see how many years it takes before you are earning as much in interest as you are putting in. Look a little farther down the road and you will see that in a few more years you could be earning three times more a year in interest than what you are contributing! It is because of the magic of compounding that you cannot afford to let one year pass without making a contribution into your retirement plan. When it comes to the wonderful effects of compounding, you can never make up for lost time. This is why, in the example just given, twenty years makes such a tremendous difference in what you will have in the end: \$480,000 worth of difference.

Year 401(k) Yearly Contribution Interest Earned at 8% Per Annum

1 \$6,000 \$480

2 \$6,000 \$998

3 \$6,000 \$1,558

4 \$6,000 \$2,163

5 \$6,000 \$2,816

6 \$6,000 \$3,521

7 \$6,000 \$4,283

8 \$6,000 \$5,106

9 \$6,000 \$5,994

Year 9: Interest Now Equals Your Contribution

10 \$6,000 \$6,954

11 \$6,000 \$7,990

12 \$6,000 \$9,109

13 \$6,000 \$10,318

14 \$6,000 \$11,623

15 \$6,000 \$13,033

Year 15: Interest Is More Than Twice Your Contribution

16 \$6,000 \$14,556

17 \$6,000 \$16,200

18 \$6,000 \$17,976

Year 18: Interest Equals More Than Three Times Your Contribution

19 \$6,000 \$19,894

20 \$6,000 \$21,966

This table illustrates the power of compounding at an 8 percent return; the higher the return, the better the results. In this case, you have invested \$120,000 over these twenty years. At 8 percent throughout, you have earned in interest \$176,536: 147% of what you put in! The interest you have earned is far greater than what you deposited in the first place, and think how much greater the rewards would be for every bit more than the

\$6,000 a year you could put in. Compounding is extraordinary, and the main ingredient of compounding is time. Give yourself that time.

Start training yourself to understand not just what your money is worth today, but what that same money will be worth in the future. Like a slide projected on a screen, your money becomes much larger over time.

Consider the “big picture” when you are looking at the money you could save or spend today. Each time you want to do something that could cost a lot of money, always calculate what it would *really* cost by looking into the future. That is the true cost of today’s desire. It is so important to see what things are really costing you and the way to see this is to see money over time. It is when you start looking at money over time that you will really begin to understand money.