CANACCORD Genuity
Wealth Management

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Investor Insight

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Retirement Planning: The Importance of Time

One of the most important concepts when thinking about retirement savings is the compounding effect that occurs over time. Three elements are needed to grow money: capital (the initial investment), rate of return and time. Of these three, time may arguably be the most important factor.

As an example, let's compare a 25-year-old and a 45-year-old who both begin to save $500 per month starting today for 20 years for a total contribution of $120,000. Assuming an annual rate of return of 5 percent, by the retirement age of 65 years the 45-year-old will have about $205,000 in savings. However, the 25-year-old will have a total of approximately $545,000 in savings, or 166 percent more than the 45-year-old.

If the 45-year-old wished to achieve the same return as the 25-year-old (at the same rate of return), she would have to invest almost $1,350 per month (or a total contribution of $324,000 over the 20-year period versus $120,000) to achieve that same return of $545,000. That's the power of time.

What If Time Isn't On My Side?

Although it is better late than never, your retirement planning will be much more challenging should you wait until later in life. A larger percentage of income must be set aside in later years to fund retirement, and expectations for retirement may have to be reevaluated as estimated savings may not be sufficient. Delaying retirement may also be necessary, especially given today’s greater life expectancy.

We’re Here to Help

We are here to provide support at any stage of the retirement planning process. For individuals who are just starting their retirement planning, we can provide planning tools, including guides and worksheets, which help to lay out your current financial position and forecast your retirement income needs. Or, for those who have already developed a plan, we would be happy to suggest changes to your existing plan should your situation have changed.

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Our goal is to help you to take charge and maximize your projected asset pool to meet your future objectives.

Common Retirement Pitfalls

1. Relying on home equity during retirement
2. Unanticipated divorce
3. Miscalculating the costs of supporting children
4. Underestimating life expectancy
5. Expecting other sources of income, e.g., inheritance
6. Misjudging the cost of retirement
7. Not planning for unanticipated events, including job loss or illness

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