Dear Friend,

 I can’t help but continue thinking about the other night at our dinner together your non-concern with saving up for your retirement. Waiting until investing until the age of 35 can cause you to have a lesser amount saved up in your retirement fund than if you started earlier. For example, let’s compare a few different scenarios of retirement savings plans, so that I can show you the advantages of starting earlier rather than your idea of starting at 35.

First, let me show you your current plan of waiting until the age of 35 to begin investing. At 35, you begin investing $750 per month into an account where interest is 4.8% compounded monthly until you retire at the age of 65. With this plan, you would retire at 65 with $601,610.61, with interest included. This may sound like a lot of money, however there are better options out there for you to explore.

Let’s assume that beginning at the age of 22 and continuing until the age of 35, you invest $300 per month in an account where interest is 4.8% compounded monthly. Then, at the age of 35, you begin investing $600 per month in the same account until you retire at the age of 65. By the age of 35, you would already have $64,804.27 in the account, including interest. Then, once you switch to investing $600 per month until the age of 65 when you retire, you would earn $481,288.49 from those investments, and combined with the initial investment and its interest, overall you would have $754,023.09 saved up for your retirement, which is $152,412.48 more than if you had invested your original way. This difference in amounts is because there was $64, 804.27 that was accrued from 22-35, and this amount continued to grow in interest along with the other deposits made from 35-65. By starting early, you earn an extra $152, 412.48 that you did not earn from the previous scenario because you did not start depositing early.

Finally, let’s explore one final scenario. Let’s assume that beginning at the age of 22 and continuing until you turn 35, you invest $300 per month in an account where interest is 4.8% compounded monthly. At the age of 35, you begin investing $750 per month, and continues making these investments until you turn 55. The established balance continues to earn compound interest until you retire at the age of 65, but you also make two withdrawals of $20,000 each from the account at the ages of 55 and 60 for lavish vacations. The initial deposits from age 22 to 35 would accrue the same amount, which would be $64,804.71. Then, by the time you reach 65 and have already done your two withdrawals of $20,000 at 55 and 60, your total saved up would be $701, 417.92. Taking out these withdrawals would end up hurting you in the end and would not allow you to accrue the most out of your retirement account. Because of the withdrawals, you ended up earning $52, 605.17 less than the previous scenario, and ended up losing $57, 703. 37 overall from those two withdrawals.

Below I have a chart that will show you clearly the different scenarios and how much money each would earn you. I hope this letter opens your eyes and allows you to understand that starting the retirement fund early is better in the long run. I would recommend you looking into a retirement plan such as the plan in scenario 2, as this will earn you the most money in the long run. I have color coded the chart to make it easier to understand where the money is coming from, the red represents the money that was deposited from age 22-35 and the interest that it gathered until age 65. The blue represents the money that was deposited from age 35-65 as well as the interest that those deposits accrued, and also includes the withdrawals made in scenario 3 at age 55 and 60. And finally, the green represents the overall totals that were accrued in the account.

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| --- | --- | --- | --- | --- |
|  | Deposit Amount(s) | Withdrawals? | #Years of Making Deposits | Age when Beginning Deposits |
| Scenario 1 | $750 per month | NO | 65-35 = 30 years | 35 |
| Scenario 2 | $300 per month from age 22-35$600 per month from 35-65 | NO | 65-22 = 43 years | 22 |
| Scenario 3 | $300 per month from age 22-35$750 per month from age 35-55 | YES$20,000 at age 55 and 60 | 55-22 = 33 years | 22 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Amount in account at age 35 | Amount in account at age 55 | Amount in account at age 60 | Total earned by age 65 |
| Scenario 1 cont. | $0 | $301, 256.28 | $433, 533.62 | $601, 610.61 |
| Scenario 2 cont. | $64, 804.28$0 | $168, 925.33$241, 005.02 | $214, 643.40$346, 826.90 | $272, 734.64 + $481, 288.49 = $754, 023.09 |
| Scenario 3 cont. | $64, 804.28$0 | $168, 925.33$281, 256.28 | $214,0643.40$337, 375.68 | $272, 734.64 + $428, 683.28 = $701, 417.92 |

I hope this helps you realize the importance of starting your retirement account early!

Your Friend,

Amber Burns