Letter to my friend Jo

Dear Jo,

I am writing you this letter after our conversation about your financial plans.  
Indeed, it is very mature of you to think about your retirement and setting a plan for it. However, it is incumbent to notice several mistakes and omission in your analysis. Planning for retirement involves understanding 3 main things. First there is interest, which in your case will be 7%, then the amount monthly invested, finally TIME! By waiting until 40 to make the payments, you give less time to your money to make money since interest grows faster over time. Therefore, it is important to start early. With that being said, let me show you how this financial plan of yours will be detrimental by analyzing 4 scenarios with the third one being similar to yours.

First, waiting until 40 will be way costlier. As we can see on scenario 1,2, and 4, saving early will gratify you, at 65, of: **1)** $616,514.52 **2)** $1,021,550.37 **4)** $737,544.53. Trying to satisfy such initiative will cost respectively **1)** $761.062 **2)** $1261 **4)** $910.46 as monthly payment if you were to start at 40 for 25 years.

Second, in addition to lessening the monthly payment burden, investing early would give time for your money to grow. This way, you invest less and still earned more than if you were to wait until 40. The first scenario best illustrates my case since it shows that despite the little amount invested, the money in the account had plenty of time to grow and even overcome the amount you would make if you invested at $500 monthly starting at age 40 (ref. Scenario 3).

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| Scenarios (age of account) | Monthly payments | Amount invested | Interest gained | Total amount at 65 |
| 1 (43 years) | $250 for 18 years | $54,000 | $562514.52 | $616,514.52 |
| 2 (43 years) | $250 for 18 years, $500 for 25 years | $204,000 | $817,550.37 | $1,021,550.37 |
| **3 (25 years)** | **$500 for 25 years** | **$150,000** | **$390035.85** | **$405,035.85** |
| 4 (43 years) | $250 for 18 years, $500 for 25 years | $204,000 - 3 $20000 withdrawals | $533544.53 \*omission of 3 withdrawal | $737,544.53 |

Moreover, the differences become even more clear when finally dealing with the funds available after retirement. No need to be a psychic to see which scenario will provide more monthly money to the retiree. Indeed, as for the scenarios we went through together, you will receive more money as monthly payments after your retirement. You would beneficiate from all these scenarios: **1)** $4779.83 **2)** $7920.07 **3)** $3140.24 **4)** $5718.17. Note that the account will continue to grow because of interest; as a result, you will withdraw more than what was available at the retirement.

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| $ at 65 | $616,514.52 (Scenario 1) | $1,021,550.37 (scenario 2) | **$405,035.85 (scenario 3)** | $737,544.53 (scenario 4) |
| $ withdrew after | $1,147,159.2 | 1,900,816.8 | **$753,657.6** | $1,372,360.8 |

Despite the obvious struggles of youngsters to start their retirement account, it is more than necessary to start investing early, even as little as you can, due to the benefits it offers when time isn’t constrained. I am very glad you are at least concerned on the matter and I certainly hope you understood my point.

Thank you for your comprehension,

Your friend.