The why and how of early retirement saving.

As a young adult, saving for retirement might be the last of your worries. However, starting your retirement planning now can help set you up for success later, letting you live out your golden year in peace instead of stressing about your finances in your old age.

Down below, you'll see 4 easy steps to put you on the path to a financially-sound retirement.

STEP 1

Save Early

Typically, between the ages of 20 and 40, you'll have more disposable income, meaning more money to contribute to your future retirement, as you won't be dealing with major expenses like your child's education or home mortgages. For this reason, It's vital to start saving early while you can comfortably do so, and small, incremental contributions can really start to add up.

Additionally, you can't underestimate the power of compound interest
Let's run some numbers. Say you invest $100/month into a savings account with an interest rate of 5%, and you retire at 65. Here's how much money you would retire with depending on what age you started:
Age 45: $39,679
Age 35: $79,727
Age 25: $144,960

Compound interest is your friend when it comes to retirement. Start now, and you'll thank yourself later.

STEP 2

Save Consistently

Small, continual savings in a retirement account can often be more valuable than large, infrequent contributions. Let's consider 2 case scenarios (5% interest rate for 20 years):

$100k initial investment + $0 monthly = $265, 330 after 20 years
$20k initial investment + $570 monthly (10% of the median Canadian adult income) = $279, 237 after 20 years

Consistent, manageable contributions on a modest initial investment can actually turn out to be more than a large initial investment, so save and contribute consistently!

STEP 3

Choose Where you Save

Saving money over decades can be a bit risky, with inflation and market downturns potentially harming your retirement savings. Luckily, there's some specialized savings accounts in banks where you can watch your money grow, risk-free, for years on end. Let's take a look at the benefits of two popular savings accounts: the Tax-Free Savings Account (TFSA) and the Registered Retirement Savings Plan (RRSP).

TFSAs

- Ages 18+
- $6, 500 yearly contribution limit
  - If you don't contribute the maximum one year, you are able to add that to your future contribution limit
- Tax-free growth

RRSPs

- Ages 0-71; you can start in high school!
- Contribution limit of 18% of income per year, maximum of $30, 780/year
- Tax-deductible contributions
- Tax-deferred growth (the money will receive tax-free compounding interest until you decide to retire)

STEP 4

Save with the Experts

For those just getting started with their finances, Guaranteed Investment Certificates (GICs) are a great option to start saving for retirement. This simple investment vehicle allows you to deposit money into an account (usually a TFSA or RRSP) for a set period of time, and receive a guaranteed amount of interest on that money every month or year, thus helping you grow your money while avoiding market fluctuations.

Saving money over decades can be a bit risky, with inflation and market downturns potentially harming your retirement savings. Luckily, there's some specialized savings accounts in banks where you can watch your money grow, risk-free, for years on end. Let's take a look at the Tax-Free Savings Account (TFSA) and the Registered Retirement Savings Plan (RRSP):

Account term	Compound interest (YRC)
1 year	5.200 %
2 year	5.000 %
3 year	4.950 %
4 year	4.850 %
5 year	4.750 %

With considerable interest rates as shown above, you can expect a 5-year account term to yield a 27.3% increase on your initial capital, which is quite impressive for a risk-free savings account. This doesn't even take into account the potential yearly contributions to this investment, further increasing the power of compounding interest on your investment.

After one GIC Max term has expired, you can set up yet another Sunlife GIC Max according to your contribution limits, and keep the cycle of compounding interest going.

By following these four straightforward steps, you'll be well on your way to a long, happy, and financially-sound retirement.

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