

# Financial Literacy Series

Taking Control of Your Financial Future



## How to Save a Million by Retirement

Saving \$1 million may not be easy. But for many Americans, it's not impossible either. It does, however, require a focus on current spending and future goals. What must be done to reach that goal is to have a good plan. That means thinking long and hard about where your money is going and setting up a budget to save.

Scenario \$32,000 Salary
Begin saving at age 25 (Retirement at age 65) Initial deferral rate: 5% Annual increase in deferral rate: 2% Annual pay increase: 2% Assumed annual rate of return on investments: 7%
<b>Account balance at retirement: \$1,045,056</b>
<b>Year 1:</b> Salary: \$32,000 Deferral rate: 5% Annual 401(k) pre-tax savings: \$1,600 Reduction in take home pay: \$1,360 Weekly reduction in take home pay: \$26.15
<b>Year 5:</b> Salary: \$35,311 Deferral rate: 13% Annual 401(k) pre-tax savings: \$4,590 Reduction in take home pay: \$3,901 Weekly reduction in take home pay: \$75.04
<b>Year 10:</b> Salary: \$39,008 Deferral rate: 13% Annual 401(k) pre-tax savings: \$5,071 Reduction in take home pay: \$4,310 Weekly reduction in take home pay: \$82.89 Source: <a href="#">Wells Fargo Survey 2016</a>

Your 401(k) plan is the perfect place to begin. You not only take advantage of tax-deferred savings, but when you start early, the power of compounding can really pay off.

Take a look at the example to the left. In this scenario, a 25-year old earning \$32,000 a year defers 5% of her salary into her 401(k) plan. Each year, she increases her deferral rate by 2% until she reaches 13%. Assuming a 7% annual rate of return, she reaches \$1,045,056 by retirement. Pretty impressive results!

In Year 1, a deferral rate of 5% creates a reduction in take home pay of only \$26.15.

By Year 5, the increase in deferral rate to 13% impacts take home pay by only \$75.04 a week. And, a continued deferral rate of 13% by Year 10 amounts to just \$82.89 a week.

So if you think you can't reach a million dollars in retirement, think again. Small steps started early can yield great results.

*Disclosure: This scenario is hypothetical and shows an assumed return of 7%. Investments are not guaranteed and may lose value.*

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