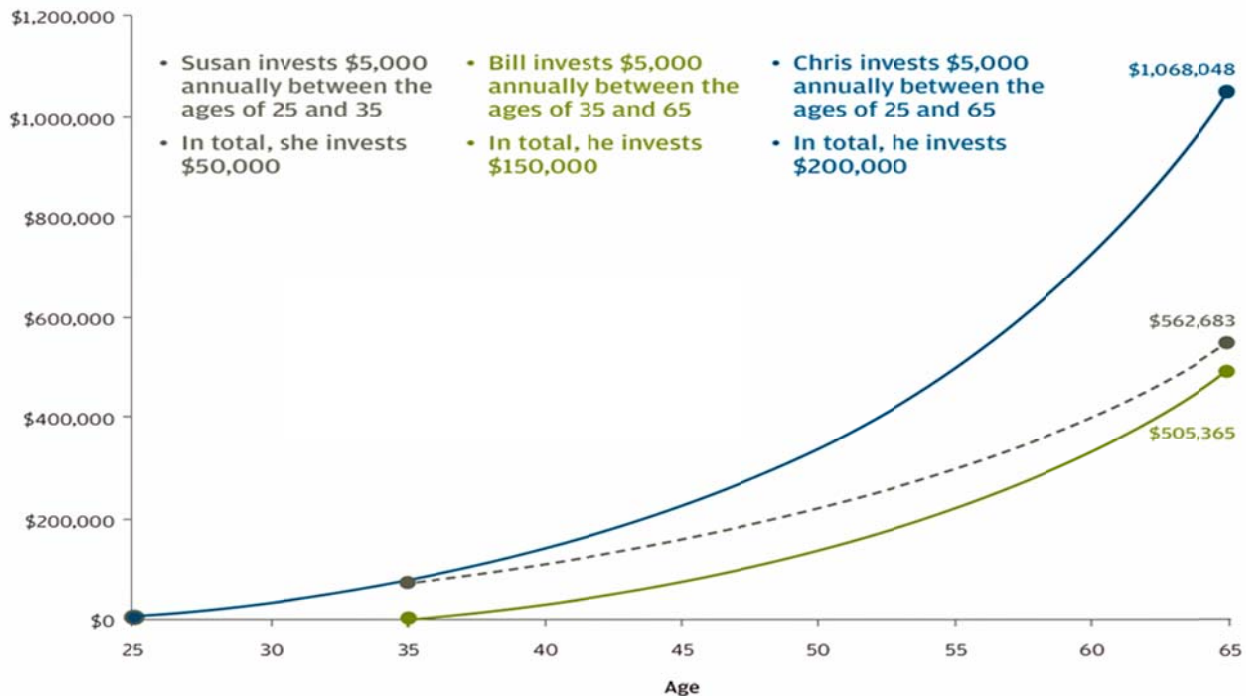


Young People Who Want a Secure Retirement Need to Understand This Chart

Growth of savings accounts



The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 7% annual return.
Source: J.P. Morgan Asset Management.
Compounding refers to the process of earning return on principal plus the return that was earned earlier.

The power of compounding can significantly impact long term savings.

This chart, from JP Morgan Asset Management, demonstrates the importance of saving early – it is the single best thing a person can do to grow their retirement account.

The newest generation of workers joining the labor force are unlikely to have a pension waiting for them at the time of retirement which means 401(k)s and individual retirement accounts are now the most popular vehicles through which long term financial security can be achieved.

Compound Interest is Powerful

Compound interest is a young employee's best friend when it comes to achieving financial stability in retirement and it only takes basic math to prove it. The mathematical concept is compound interest. When an employee starts saving, that money earns interest which increases the amount of money in his savings pot, which in turn, starts accruing more interest. Over many years, that small incremental increase of interest makes a big difference!

You can see in the chart above that saving a little bit every year from age 25 to 35 means a lot more money at 65 than if the person had started saving — even with significantly more money — at age 35.

How Susan crushed Bill in a third of the time

JP Morgan's example consists of three people who experience the same annual return on their retirement funds: Susan, who invests \$5,000 per year only from ages 25 to 35 (10 years); Bill, who also invests \$5,000 per year, but from ages 35 to 65 (30 years); and Chris, who also invests \$5,000 per year, but from ages 25 to 65 (40 years).

Intuitively, it makes sense that Chris would end up with the most money. But the amount he has saved is astronomically larger than the amounts saved by Susan or Bill. Interestingly, Susan, who saved for just 10 years, has more wealth than Bill, who saved for 30 years. That discrepancy is explained by the power of compound interest.

The sooner you start saving for retirement, the more you will benefit from the incredible power of compound interest.

For the original article go to: <http://www.businessinsider.com/compound-interest-and-retirement-savings-2015-3#ixzz3UeDaQk8S>