start early

The earlier you start saving money, the richer you will be. The magic of time and compounding make a startling difference in the amount you can accumulate by the age of 65-even though the amount you contribute may be small.

Take a look at the chart below. We assumed that no matter what age you start, you earn an annual rate of 10% (less than the historic annual average for stock market returns). If you were to start at the age of 20 and save only $1,265 a year, you would invest a total of $56,905 out of your pocket and end up with $1 million at the age of 65-and you never have to save more than $1,265 a year!

However, if you wait until the age of 40 to start saving, you will have to deposit $9,244 a year every year for 25 years, which is a total of $231,092 out of your pocket. You have to save over four times as much as the $56,905 you would have saved if you started at the age of 20.

How hard can it be to save $1,265 a year? This is just a little more than $105 a month. Would you prefer that, or would you rather wait until the age of 40 and save $9,244 a year-$770 a month?

To figure out how much you need to save each year to reach $1 million by the age of 65, take the total contribution below and divide it by the number of years between the starting age and 65. For example, if you start saving at the age of 35, the total contribution is $165,798. Divide that by 30 years (65 years less your current age of 30) to get an annual savings amount required of $5,527. Start saving today-you aren't getting any younger !