

The Power of 1%

When was the last time you increased your deferral percentage? Do you know what your target percentage should be? Studies show that if you are not saving 10-15% into a retirement savings vehicle (ex: 401(k), IRA, etc.) on an annual basis, you are not saving enough. So how do you get there?

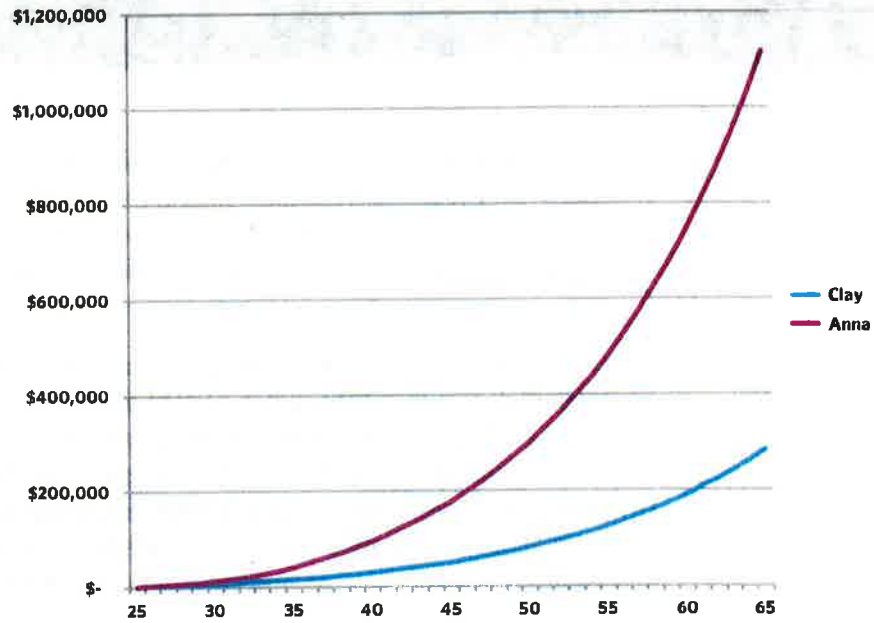
Given over 45% of plans now utilize auto enrollment, you were likely auto enrolled into your company's 401(k) plan at a rate of 3% of your annual salary (PSCA 55th Annual Survey). Have you considered increasing this rate to at least your employers maximum match percentage (if applicable)? But don't stop there. Also consider increasing your deferral rate by 1% each year until you reach the 10 or 15% deferral rate. This small increase on an annual basis can have an enormous impact on your savings amount at retirement.

The chart below illustrates the contribution amount at different deferral rate percentages for someone with an annual salary of \$30,000.

Employee Deferral	Contribution per Pay Period	Projected Savings at Retirement
3%	\$35.00	\$284,912
4%	\$46.00	\$379,883
5%	\$57.00	\$474,854
6%	\$69.00	\$569,825
10%	\$115.00	\$949,708
15%	\$173.00	\$1,424,562

This example is for illustrative purposes only. The assumed rate of return in this chart is hypothetical and does not represent the return of any particular investment option. Assumption is you are age 25 and retiring at age 65, have an annual salary of \$30,000, adjusted 3% annually, and you are paid bi-weekly. Rate of return for this illustration is 7%.

Now, let's take a look at how setting your account to auto increase 1% each year can impact your retirement savings. Clay and Anna, both 25, start contributing 3% to the 401(k) on the same day and both earn \$30,000 per year. Anna increases her contributions by 1% each year until she reaches 15%. Clay continues saving 3% each year. When Anna retires at age 65, her balance equals \$1,117,998. Clay's balance at 65 is \$284,912. Anna was able to save **\$833,076** more than Clay because she made small changes each year to her savings amount.



This example is for illustrative purposes only. The assumed rate of return in this chart is hypothetical and does not represent the return of any particular investment option. Assumption is you are age 25 and retiring at age 65 and have an annual salary of \$30,000 adjusted 3% each year for inflation. Rate of return for this illustration is 7%.

If you are unable to start deferring 15% right away, and let's be honest not many people can, consider contacting your plan provider to see if you can set up your account to auto escalate to a percent you are comfortable deferring. Another consideration is increasing your savings rate when you receive a salary increase. Small changes can make a big difference.