modeferred comp | Retirement Savings Education, Simplified | Second Quarter 2023

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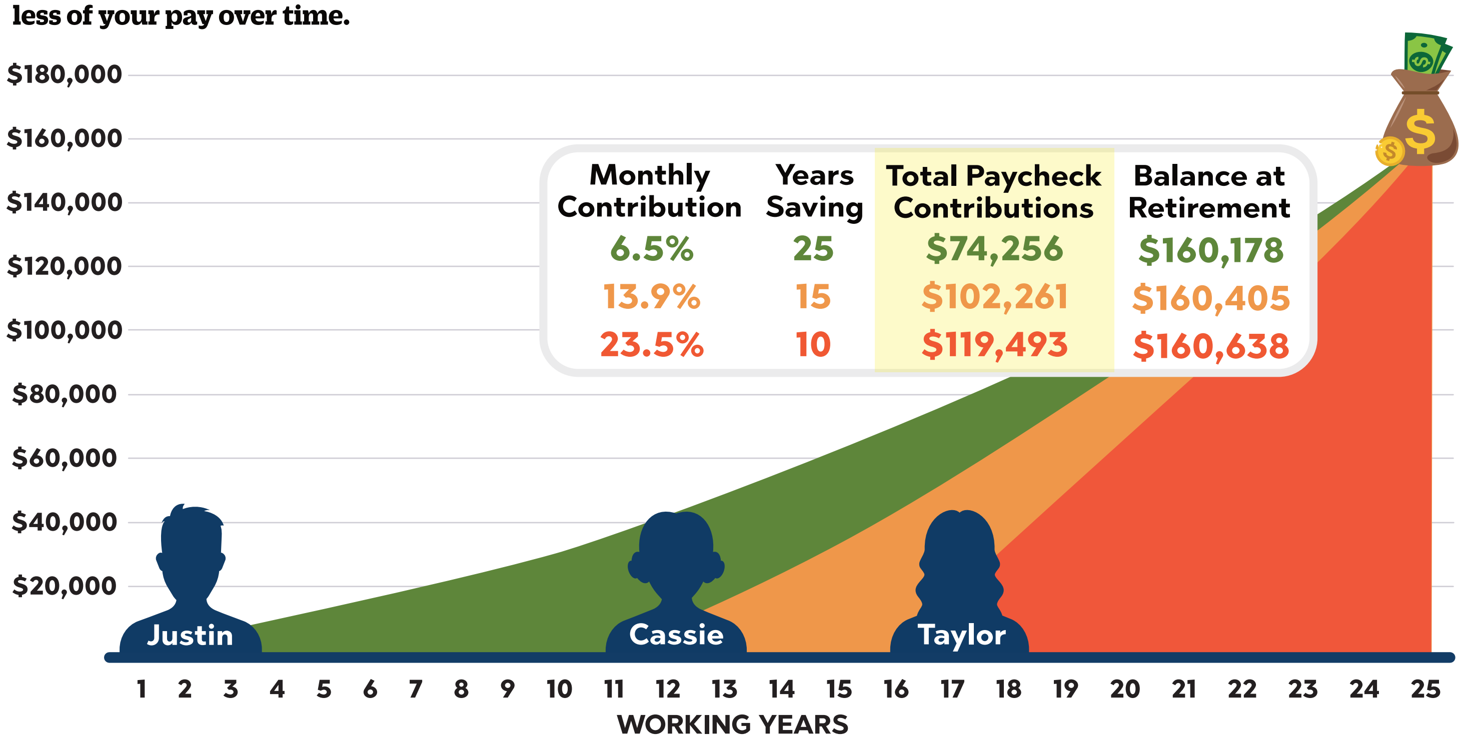
The Time Value of Money

You've probably heard the famous phrase "time is money." It's the idea that time is a valuable resource and should be used wisely. While this phrase is important in different aspects of life, one area it plays a major role in is finances, and that's the ***time value of money***.

What is the time value of money?

You probably already know that saving money for retirement is crucial for your future financial stability, but did you know that time is one of the most important factors when it comes to saving? **As you save over the years, your money has more time to compound and grow. This basic but important concept is called the time value of money, and it's essential for making smart savings decisions.** Simply put, money in the present is worth more than the same amount of money in the future. How, you ask? The money you have now can be invested to earn more over a long period of time, thus creating a larger amount of money in the future.

Let's see the time value of money in action. In the example below, Justin made a monthly contribution of 6.5% throughout his 25-year career for a balance at retirement of $160,178 and total paycheck contributions of $74,256. Cassie decided to wait 10 years before starting to save. For her to achieve approximately the same savings balance as Justin at retirement, she would need to save 13.9% for 15 years for a total of $102,261 in paycheck contributions. That's $28,005 more than Justin! Taylor waits even longer to start saving — 15 years to be exact. She'll need to save 23.5% for 10 years to achieve a similar account balance as Justin at retirement. Her total paycheck contributions are $119,493 — which is $45,237 more than Justin and $17,232 more than Cassie! **The earlier you start saving, the more time you have to take advantage of compounding interest, which means smaller monthly contributions and less of your pay over time.**



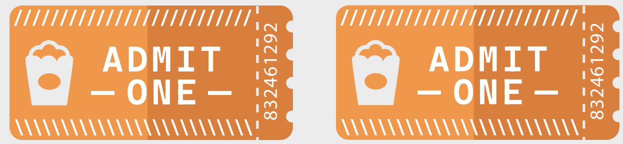
Monthly Contribution	Years Saving	Total Paycheck Contributions	Balance at Retirement
6.5%	25	$74,256	$160,178
13.9%	15	$102,261	$160,405
23.5%	10	$119,493	$160,638

Assumes a career starting salary of $38,000, 1.5% annual salary increases and a 6% annual investment return.

Time Value: Inflation & Purchasing Power

Now that we know how the time value of money works, you may be wondering why it is so important. That's because of a related concept called inflation. ***Inflation*** is the increase in the price of goods and services over time. Anytime inflation occurs, your ***purchasing power*** (the value of money in terms of goods and services it can purchase) decreases. In other words, the purchase of an item today for a certain amount of money will be more expensive over time. **The longer you keep your money stashed and not invested, the fewer goods and services you'll be able to purchase with that same amount of money in the future.** For example, let's say you buy a movie ticket for $10.45 in 2023. That same movie ticket back in 1995 would have only cost you $4.35. You could have purchased two tickets with a little extra cash left over for the amount of money it costs for just one ticket in 2023. When you don't take advantage of the time you have to save, the cost of retirement will become a financial headache. Don't get caught off guard. Start saving now and take advantage of the additional gains your money could earn over time.

Increase in Movie Ticket Price Over Time



$4.35
Price in 1995

$10.45
Price in 2023

You could buy two movie tickets in 1995 for the price of one ticket in 2023!

Source: https://www.the-numbers.com/market/

Need to make up for lost time?

If retirement is drawing near and you don't have a lot of time left to save, you can still reach your goal by simply saving more each month or even working a little longer. Each year the IRS allows you to save up to a certain limit while also providing catch-up provisions for employees who are within 3 years of retirement. Increasing your contribution amount and saving as much as you can will help get you back on track.

2023 Contribution Limits

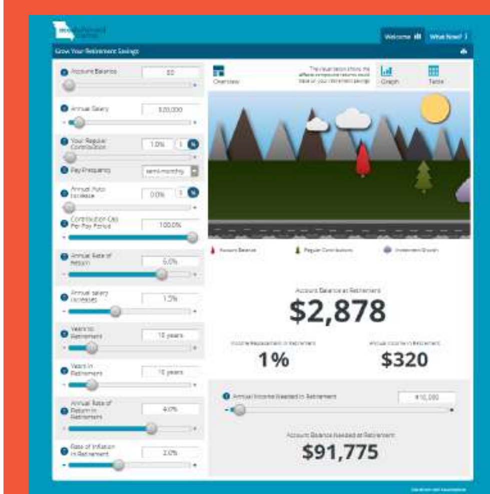
Maximum Annual Deferral - Under Age 50	$22,500
Age 50 and Over Catch-up Provision Limit	$7,500 (*$30,000 total*)
Pre-Retirement Catch-up Provision Limit	$22,500 (*$45,000 total*)

The bottom line ...

... take advantage of the time you have and start saving as soon as possible! If you're young, start saving now and have time on your side. On the flip side, don't be discouraged if you've put off saving for a few years. You may just need to increase your contribution amount in order to meet your goal. If you have questions, or need a little nudge in the right direction, our team of financial education professionals is here to help get you on track to meet your savings goal. Visit **www.modeferredcomp.org** to set up a meeting. No matter what stage you're at in your career, you'll always be better off saving sooner rather than later.

Watch your savings grow over time!

The **Grow Your Retirement Savings calculator** is a handy tool that shows you how making regular contributions over a long period of time can have a big impact on your total retirement savings. Visit **www.modeferredcomp.org** and start calculating.



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