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Getting Motivated to Save for Retirement - as a Young Adult

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By Nanci Hellmich

When it comes to saving for retirement, starting early is crucial, says [Michael S. Pratico](#), a CAPTRUST financial advisor in Falmouth, Maine.

It's a lesson he learned at the very beginning of his working life. On the first day of his first job after college, a colleague pulled Pratico aside and said to him, "Mike, you have to take advantage of the 401(k) which has a dollar for dollar match up to 4 percent of your salary. That's a 100 percent return on your money before it even gets invested."

Although Pratico wasn't making a lot at the time, he signed up to have 4 percent of his income deducted directly from his paycheck and put into his 401(k) plan. He learned to live on what remained of his salary by cutting back on other expenses. He packed his lunch every day, even when he went on business trips.

"I started accumulating retirement savings at 22, and to this day, it's the best financial advice I have ever gotten," he says.

Pratico understands how hard it is to save for retirement, and he knows many people don't have a lot to tuck away because they are struggling to pay their bills and debts. That said, "I can't emphasize it enough. It has to be a priority."

Starting to save when you are in your 20s can produce dramatic results, Pratico says. He often shows clients a

chart that details how investing as a young adult can pay off, including calculations on the amount they may earn on their investments over the long run.

Like Pratico, [Jean Duffy](#), a CAPTRUST financial advisor in West Des Moines, Iowa, is passionate about motivating young adults to put away money for retirement. She encourages them to “save as much as possible,” even up to 10 percent of their income. “Many realize it’s a great opportunity once they understand the power of compound interest.”

When Duffy began her first job in the financial field right after college, she started by putting 4 percent of her income into her retirement savings, but she increased it by 1 percent a year until she was up to 15 percent.

She tells young people today that one of her greatest regrets of her financial life was not signing up for 10 to 15 percent right away. Looking back in life, she realizes that this was one of the few times in her life where she had more disposable income. “I believe there are two times in life when it is easiest to save money, pre-kids and post-kids. In between, it’s tough.”

Here are some suggestions for figuring out how much you should be saving for retirement—and then meeting those goals.

- **Establish a plan and set your goals.** The best way to do this is to use the tools and resources that are available to you through your 401(k) plan, Pratico says. “A gap-analysis calculation will help you to determine whether or not you saving the correct amount.” You can do this calculation on your own using an online tool or simply work with your service provider and have them do the calculation for you. Most good service providers have online calculators, asset allocation tools, and helpful telephone representatives, Pratico says. Many 401(k) service providers will be able to help you with this over an 800 line, he says.

CAPTRUST offers several online calculators to assess your retirement savings plan and estimated Social Security benefits.

- [Savings Calculator](#)
Estimate the amount of income your retirement savings plan alone may provide you upon retirement.
- [Total Retirement Calculator](#)
Estimate the amount of income your combined retirement plan savings, Social Security benefits, and other investments may provide you upon retirement.
- [Social Security Calculator](#)
Estimate the amount of income you might expect from Social Security when you retire.
- **Move up incrementally.** If you are saving 4 percent of your income, but figure out that you should be putting away 10 percent, don’t become overwhelmed, Pratico says. Instead increase the amount by 1 percent or 2 percent a year until you reach your objective.
- **Take advantage of your raise** and increase your contribution a little bit every year. “I usually tell people that, if they’re fortunate enough to get an annual pay increase, that they should direct 1 percent of it to their 401(k) plan,” Pratico says. For most people that ends up being a relatively small amount out of each paycheck but makes a huge impact on their retirement account balance long term.
- **Use the “auto increase” feature available through most record keepers.** With this feature you can actually pick a date and an amount, then your deduction will be automatically increased by that amount each year, Pratico says. Again, a great time to do this may be right after your annual pay increase.
- **Play catchup.** If you are really short on retirement savings, then max out your savings as much as you possibly can, he says. That may mean cutting back on some of your spending so you have more to save. “It’s never too late to work on it. Whatever you save is going to be meaningful. Don’t ever think that it’s not worth trying.” Also, if you are fortunate enough to work for a company that offers a participant advice service, like the one offered by CAPTRUST, you absolutely should take advantage of that service. This is an opportunity to get advice from an independent and objective professional who has your best interests in mind and wants to help.

- **Consider your investment options carefully.** Pratico says he often recommends target date funds, which focus on age-appropriate asset allocation. They automatically change and become less risky as you get older, he says. “These funds would put a lot of people in a much better position for retirement.”

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or [schedule an appointment](#) with a retirement counselor today.