KING FINANCIAL GROUP LLC

Pay Yourself First!

No matter how hard you try to avoid it, sometimes it seems like your day-to-day living expenses just eat away at your entire paycheck. Before you know it, the money in your paycheck seems to vanish, and you don't even know where it went. And while you're focused on just making ends meet, putting money away for the future may be the last thing on your mind. Even so, you need to remember that taking care of your longer-term financial goals is just as important as meeting your current needs.

Ever since the days of putting pennies in a piggybank, you've likely received plenty of advice on the value of saving your money. But when mom and dad aren't taking care of the necessities any more, and you have your own bills to pay, it's easy to lose track and forget to save. As a reminder of just how important it is to put part of your income aside – and to do it sooner, rather than later – take a look at an example of just how the numbers shake out.

For this example we'll use two investors – one who starts early and lets her savings grow, and another who waits until later to begin. Let's say the early investor puts away $5,000 per year for five years, and then allows that investment to grow for 15 years without putting in another penny. The late investor, on the other hand, waits for 10 years before he even begins his savings plan. He then invests $5,000 a year for 10 years, putting his total investment at $50,000 – exactly twice as much as the early investor.

Assuming an eight percent average annual rate of return on their investments, if we jump ahead now to 20 years from the time our two investors started, the difference in their accounts is substantial. Our early investor would have accumulated a total of roughly $100,493 in her account by this time. Keep in mind she hasn't put a penny of her own money in for the last 15 years. Meanwhile, the late investor's account has grown to only $78,227, and he has been contributing each year for the past ten years. That means that our early investor only put in half as much of her own money, and came out well over $20,000 ahead.

Now, this example is only meant to illustrate the advantages of saving regularly and starting early. This does not reflect the performance of any specific investment, nor does it take into account the eventual effects of taxes. It does, however, make the point very clear – by delaying 10 years in getting started, the late investor loses out on the benefits of compounding over a longer period of time.

Disciplined investment habits aren't always easy to come by, but there are several things you can do to improve your savings routine. One of the easiest ways to establish a savings plan is by taking advantage of the convenience of electronic funds transfer (EFT). You may be familiar with this type of service if you currently receive or make electronic deposits to your bank account. This service is also available from other financial services firms, and paying yourself first by using an EFT system can help you get in the habit of saving.

Direct deposit allows you the opportunity to deposit all or part of your paycheck to the account of your choice, so you could choose to set aside a certain portion to go directly to a savings account as opposed to your checking account. Another way to take advantage of EFT is to set up an automatic monthly deposit. This is a simple, disciplined way to add to your account, authorizing a specific amount to be transferred from one of your accounts to another (i.e. from checking to a savings or investment account).

Regardless of which method you choose – or even if you decide on completely different investment strategy – putting aside money now will help you prepare to reach your financial goals that lie further down the road.

This article was written by a third party and provided courtesy of Andrew King, Registered Investment Advisor Representative.
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