

Start early to save for retirement

When it comes to saving for retirement, time is of the essence. That's because the sooner you start saving — even if the amounts are small — the more time your money has to potentially grow. This is due to the power of compounding interest. And, this can be even more powerful if you invest in a tax-advantaged account, such as a Traditional or Roth IRA.

A Traditional IRA offers *tax-deferred* growth potential. Which means you pay no taxes on any investment earnings until you withdraw or “distribute” the money from your account, presumably in retirement.

A Roth IRA offers *tax-free* growth potential. Investment earnings are distributed tax-free in retirement, provided certain conditions are met. Since contributions are made with after-tax dollars, Roth IRA contributions are not tax deductible, regardless of income.

To explain the importance of time and the power of tax-deferral and compounding interest, we'll tell the hypothetical story of Margaret and John. These two friends are recent college graduates who are both working for small companies that do not have qualified employer sponsored retirement plans (QRPs) for their employees.



Margaret's story

Margaret's family has always believed that you should “pay yourself first” and taught her from the time she was young to save at least 10% of her earnings. Now that Margaret, 23, is employed, she has decided to open an IRA at Wells Fargo Advisors. Margaret is planning to invest \$5,500 a year in this IRA for the next 10 years (for a total of a \$55,000 investment). After that time, Margaret will not be making any additional IRA contributions.



John's story

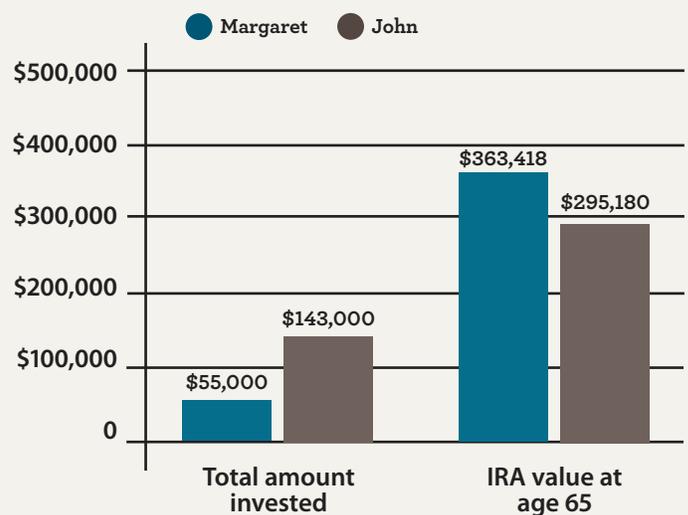
Conversely, John isn't focused on saving for his future and will wait until the age of 40 to begin saving \$5,500 a year in an IRA. However, at this older age and with his higher earning power, he will invest every year until age 65 (for a total of 26 years and a \$143,000 investment).

Who will have more saved for retirement?

Now comes the key question: If both John and Margaret can earn a consistent 5% on the investments in their IRAs, who will have the most saved for retirement at age 65?

As you can see from the graph, John's \$143,000 IRA is worth \$295,180 when he is age 65. Margaret's IRA has a value of \$363,418 at age 65, a difference of more than \$68,000 — and she also invested \$88,000 less than John.

The power of starting early



This information is hypothetical and assumes an annual return of 5%. It is provided for informational purposes only. It is not intended to represent any specific investment, nor is it indicative of future results. Ending values for Margaret and John are at age 65. Traditional IRA distributions are taxed as ordinary income. Qualified Roth IRA distributions are not subject to state and local taxation in most states. Qualified Roth IRA distributions are also federally tax-free, provided a Roth account has been open for more than five years and the owner has reached age 59½ or meets other requirements. Both may be subject to the IRS 10% additional tax if distributions are taken prior to age 59½.

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Start saving early

What made the difference in Margaret and John's scenarios? Time and the power of tax-deferred compounding. Start your IRA savings strategy early. An IRA allows you to save for your retirement **and** take advantage of tax benefits. Investment earnings in a Traditional IRA are not taxed until you begin taking distributions. Roth IRA potential investment earnings are distributed tax-free if the account has been open for more than five years and the owner is over age 59½ or as a result of your death, disability, or using the first-time homebuyer exception. This allows you to potentially accumulate retirement savings faster than you would in a brokerage account, where taxes are paid on any earnings annually.

For young investors, it may seem that saving for the future can be placed at the bottom of your list of priorities, but as we saw in the previous hypothetical example, the time value of money has the potential to be a very important aspect in an overall retirement planning strategy. As you begin to manage your investment portfolio, remember that being committed to a regular savings strategy can reap rewards in the years ahead.



Talk to Wells Fargo Advisors

One of the key strategies for securing a successful future is developing a plan and putting it into action. At Wells Fargo

Advisors, we can help you with your retirement plan and help you monitor your progress along the way. We look forward to working with you as you strive to meet your goals and wish you an exciting future.

With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. Wells Fargo Advisors can support you in your retirement planning process by providing the guidance needed to make informed choices. We will meet with you and help create a comprehensive plan that takes into account your complete financial picture. Your Financial Advisor will be with you every step of the way to monitor your progress and adapt your plan as needed. Working together, we'll design and implement a retirement plan that will help you live out your unique vision of retirement.

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