MOOREINSIGHTS

The Real Cost of Procrastination: Why Waiting on Retirement Planning Could be Costly

Early on in your career, it's easy to put off retirement planning as something you don't need to worry about yet. Even later, as they approach retirement age, many people procrastinate on their planning. That procrastination comes at a real cost, though.

Waiting to begin retirement planning can lead to missed opportunities, higher-risk investments, and a lower income in retirement. The best approach is to start planning as soon as possible to avoid these pitfalls.

Missed Growth Opportunities

Generally, the more time your investments spend in the market, the better, thanks to the power of compound interest. Say you invest $1,000 initially and average an annual return of 10%. After the first year, you'd have $1,100, which isn't much more than your initial investment.

But after 10 years, you'd have over $2,500. And after another decade, a total of 20 years, your money would grow to around $6,700.

Earning money on your initial investment, plus all the money you already earned in returns, leads to exponential growth. You unlock that growth by giving your money time. If you procrastinate on your retirement planning, you have less time for investments to grow.

Increased Risk in the Market

Because you can't leverage as much compound growth if you wait to invest, you may try making more aggressive investments at a later stage to try to grow your money faster. These more aggressive investments may increase your potential returns, but they also increase your risk exposure.

Retirement Shortfalls

If you don't give yourself enough time to hit your retirement savings goals, you could end up facing an income gap once you do retire. You might then need to make hard decisions to be able to afford your necessary and desired expenses on this lower income in retirement.

Late Savings Limits

The government sets limits on how much you can contribute to certain types of retirement accounts, like 401(k)s and IRAs, each year. While these limits do increase for individuals over 50 years old making "catch-up contributions," they can still make it difficult to save larger amounts as you approach retirement.

Lost Tax Advantages

Investing for retirement late also means missing out on opportunities for tax deductions and advantages from retirement contributions. Employer-sponsored plans, like 401(k)s, are tax-advantaged accounts that you can contribute to with your pre-tax income. If you wait to invest in these accounts, you have fewer years to let your money grow tax-deferred.

Kickstart Your Retirement Planning

The best time to start your retirement planning is as early as possible. The second-best time is right now. Even if you think it's too late to start, you have options. Don't delay any longer; make a plan for a secure retirement and act on it to get ahead.