Secrets of young super savers

Based on an article from our U.S. partners

Young super savers do things a little differently from other savers. Here are some of their secrets.

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Keys takeaways

✓ Start saving right now and try to increase the amount you're able to put away over time.

✓ Aim to save at least 15% toward retirement.—that includes any match to an employer workplace retirement savings plan.

✓ Learn to invest and get tax benefits by contributing to a RRSP or a TFSA, or other workplace retirement savings plans.

Think you're saving enough for retirement? Some young people might be out-saving you. Nearly one in five workers born from 1981 to 1997, aka millennials, saves more than 15% of his or her salary for retirement, according to a 2016 analysis conducted by Fidelity in the U.S. of 14.5 million 401(k) plan participants in plans managed by Fidelity in the U.S.[1]

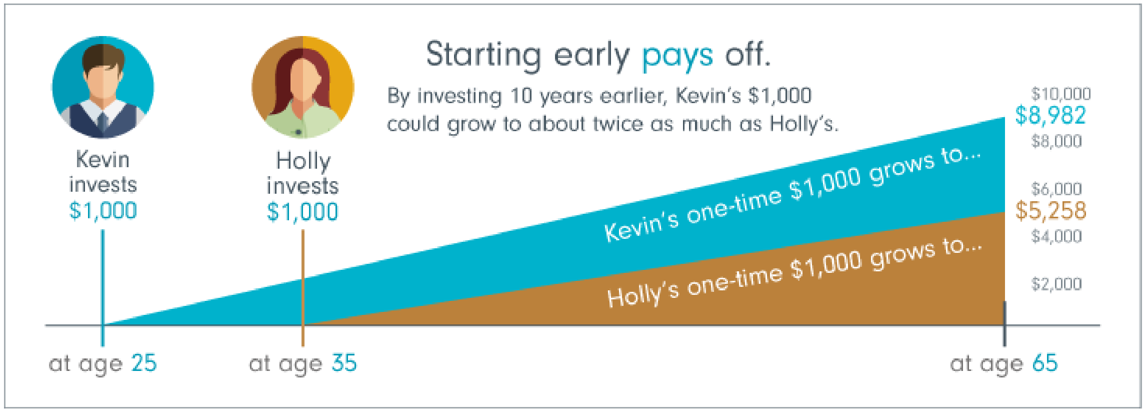
Call them the super savers. Their savings accomplishments are notable for two reasons: Saving 15% of income from age 25 on, puts them on track to maintain their current lifestyle in retirement, and 15% is more than most people their age—or even older—manage to save for retirement.

Just 27% of Generation X, ages 37 to 52, saves more than 15% of income in their workplace retirement account, and only 37% of baby boom ages 52 to 71, saves that much. Want to be a super saver? Here's how.

1. Get involved with your savings.

If your company offers a workplace retirement savings plan, begin contributing as soon as you can—particularly if your employer offers a match on part of your contribution. Taking steps to start saving is a great beginning, no matter how much or how little you're able to save at first. That's because starting early can make a big difference in the long run.

Starting early pays off



The hypothetical illustration assumes a 5.5% nominal annual growth rate on investments. A $1,000 contribution is made at the beginning of the year at ages 25 and 35, respectively. the total balances for the two hypothetical portfolios are then compared at the assumed retirement age of 65. All accumulated retirement savings amounts are shown in future (nominal) dollars. The illustration does not take into account any taxes or fees. Your own account may earn more or less than this example, and income taxes will be due when you withdraw from your account. Investing is this manner does not ensure a profit or guarantee against a loss in declining markets. Investing involves risk, including the risk of loss.

2. Sign up to increase your workplace retirement savings plan contributions automatically.

Many employers offer to increase your contribution automatically each year. Once you sign up to boost your contribution, your employer will increase the amount taken out of your paycheck by the amount you specify.

Of course, you should always review your workplace retirement savings plan regularly and check to ensure that you're saving as much as you can. But with this feature, your employer will increase your plan contribution by the amount you choose, usually on a yearly basis. The choice is typically presented as a percentage of your income or as a dollar amount.

You don't have to increase your contributions dramatically—saving just a little bit more each year can add up over time.

Increase you contribution by 1% and you could ...

*Approximation based on a 1%, 3%, or 5% increase in contribution. Continued employment from current age to retirement age, 67. We assume you are exactly your current age (in whole number of years) and will retire on your birthday at your retirement age. Number of years of savings equals retirement age minus current age. Nominal investment growth rate is assumed to be 5.5%. Hypothetical nominal salary growth rate is assumed to be 4% (2.5% inflation + 1.5% real salary growth rate). All accumulated retirement savings amounts are shown in future (nominal) dollars.
Your own plan account may earn more or less than this example and income taxes will be due when you withdraw from your account. Investing in this manner does not ensure a profit or guarantee against a loss in declining markets. Investing involves risk, including the risk of loss.

3. Aim to save at least 15% every year.

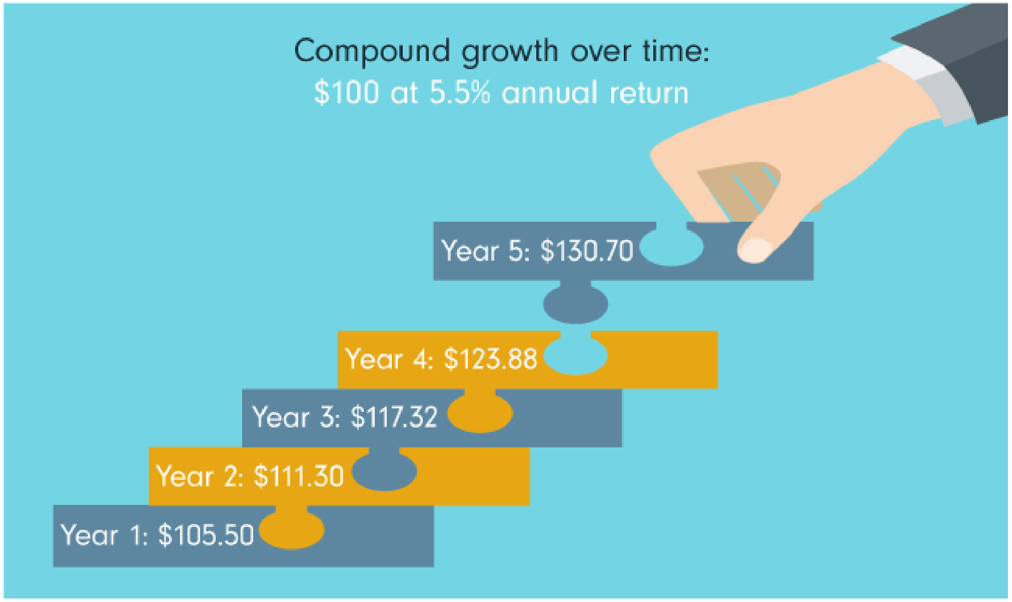
Saving 15% of your pretax salary may seem like a lot. But, if you have a workplace retirement account with an employer match or profit sharing, that contribution from your employer counts toward your annual savings rate. To get to 15%, or to save even more, consider increasing your retirement savings with every raise. If you happen to get some extra money as a gift or inheritance, consider saving a portion for retirement.

Consider following our 50/15/5 rule of thumb to keep your spending and saving on track. Aim to spend no more than 50% of your take-home pay on essential expenses, including housing, utilities, food, transportation and debt payments. Put 15% of your pretax income toward retirement savings. Then save 5% of your take-home pay for short-term emergency expenses, such as unexpected car repairs or replacing an appliance. Work toward saving up at least enough money to cover three to six months' worth of your essential expenses.

4. Learn how to invest, at least a little.

Just putting your savings into cash may not be enough to help you reach your goals. Investing can help your money grow and can help it to compound more quickly over time. Compounding is what happens when your investment earns a return, and then the gains on your initial investment begin to earn returns of their own.

Compound growth over time: $100 at 5.5% annual return



This hypothetical example is for illustrative purposes only. It is not intended to predict or project investments results. Your rate of return may be higher or lower than that shown in the hypothetical illustration above.

You probably already know that investing is important, but figuring out how to actually do it can be challenging. It doesn't have to be so complicated though.

Once you have an understanding of investment basics, you'll feel much more comfortable making decisions. To help get you started, there are numerous tools, tips, and articles that can help you take your financial knowledge to the next level. Consider building a mix of investments based on easy-to-understand principles of investing known as diversification and asset allocation.

The basic idea of diversification is putting your money into different types of investments.

You want to build your investment portfolio with an investment mix, or "asset allocation," of stocks, bonds and short-term/cash-like investments whose returns don't typically move in the same direction – or that might even move in the opposite direction. Even if some of your investments are declining, the rest of your portfolio could be growing.

A financial advisor can provide guidance and expertise on these investment principles, and on choosing investments that are appropriate fc you, based on your financial situation and your tolerance for the market's ups and downs.

The key to creating an appropriate investment portfolio is coming up with a good strategy and sticking with it.

5. Save in tax-advantaged accounts.

Maybe you don't have workplace savings plan. You still have options, though.

Consider saving in tax-advantaged savings accounts like Registered Retirement Savings Plans (RRSPs) and/or Tax-Free Savings Accounts (TFSAs). If you're self-employed, consider saving in an individual pension plan (IPP).

Taxes, and all the rules around taxes are complicated, but a financial advisor may be able to help. Just helping you to think through which of your investments should be held in which account can make a big difference. Which investments are better suited for a TFSA and which for a RRSP? Because different types of investments are subject to different tax rules, and different types of accounts offer different tax benefits, coming up with a strategy for what to put where can potentially reduce the taxes you have to pay on your investments overall. These asset location decisions can be complex, but a financial advisor may be able to help.

6. Stick to it.

If you consistently feel as though you just don't have any money to save, or aren't saving as much as you would like, take a close look at expenses. There may be some areas where you could cut your spending in order to increase savings and pay off debt, if that's an issue for you. Sometimes short-term spending sacrifices are worth it if your finances will come out ahead in the long run.

Finally, be confident. You have time on your side. If you keep saving and investing, you'll be on track to live the life you want in retirement.

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[1.] Fidelity analysis of 22,100 corporate DC plans (including advisor-sold DC) and 14.5 M participants as of 12/31/2016.

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