The Importance of Starting Early

Case Study: Carly & Leslie Rose

Background

Leslie and Carly, sisters and best friends, just graduated from college together. Many of their friends and family have been known to refer to Carly as the practical sister and Leslie as the "free spirit." When asked about their future plans, the sisters' responses reflect their different viewpoints. Carly promptly states that she would accept an appropriate job and start saving as much as she could for retirement. Leslie, being the free spirit that she is, prefers to travel for a few years and take some part-time jobs before starting to save for retirement. She thinks that even if she waits until she is 30, she should be able to catch up to Carly's investment by the time she retires by adding to her portfolio over a longer period.

Problem

If Carly were to start contributing $2,000 to her investment portfolio each year for the next 10 years, how big would her portfolio be by the time she turns 90? If Leslie were to wait for 10 years and then contribute $2,000 per year until she is 90 years old, would she catch up to Carly's portfolio assuming that both sisters were able to attain an 8% return per year?

Solution

- If Carly were to start investing today and contribute $2,000 per year for ***10 years*** (ages 21-30 for a total of $20,000 out of pocket), her portfolio would have $3,168,432 by the time she was 90 years old.
- If Leslie were to wait for 10 years before investing and then contribute $2,000 per year for the next ***60 years*** (ages 31-90 for a total of $120,000 out of pocket), her portfolio would have $2,706,941 by the time she was 90 years old.
- **Simply stated, Leslie would have to invest nearly 6 times as much money as Carly to achieve only 85% of Carly's portfolio.**
- **Starting early makes a huge difference!**

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	Starting Early		Starting Late	
	Contributing $2000/year during ages 21-30		Contributing $2000/year during ages 31-90	
Age	Contribution	Account Value after 8% interest	Contribution	Account Value after 8% interest
21	$ 2,000.00	$ 2,160.00	$ -	$ -
22	$ 2,000.00	$ 4,492.80	$ -	$ -
23	$ 2,000.00	$ 7,012.22	$ -	$ -
24	$ 2,000.00	$ 9,733.20	$ -	$ -
25	$ 2,000.00	$ 12,671.86	$ -	$ -
26	$ 2,000.00	$ 15,845.61	$ -	$ -
27	$ 2,000.00	$ 19,273.26	$ -	$ -
28	$ 2,000.00	$ 22,975.12	$ -	$ -
29	$ 2,000.00	$ 26,973.12	$ -	$ -
30	$ 2,000.00	$ 31,290.97	$ -	$ -
31	$ -	$ 33,794.25	$ 2,000.00	$ 2,160.00
32	$ -	$ 36,497.79	$ 2,000.00	$ 4,492.80
33	$ -	$ 39,417.62	$ 2,000.00	$ 7,012.22
34	$ -	$ 42,571.03	$ 2,000.00	$ 9,733.20
35	$ -	$ 45,976.71	$ 2,000.00	$ 12,671.86
86	$ -	$ 2,328,892.28	$ 2,000.00	$ 1,982,528.04
87	$ -	$ 2,515,203.67	$ 2,000.00	$ 2,143,290.29
88	$ -	$ 2,716,419.96	$ 2,000.00	$ 2,316,913.51
89	$ -	$ 2,933,733.56	$ 2,000.00	$ 2,504,426.59
90	$ -	$ 3,168,432.24	$ 2,000.00	$ 2,706,940.72
	$ (20,000.00)	Total "Out of Pocket"	$ (120,000.00)	Total "Out of Pocket":
	Total Account Value:	$ 3,168,432.24	Total Account Value:	$ 2,706,940.72

Ages 36-85 not shown

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