IRA Insights

Now is the time to graduate to an IRA

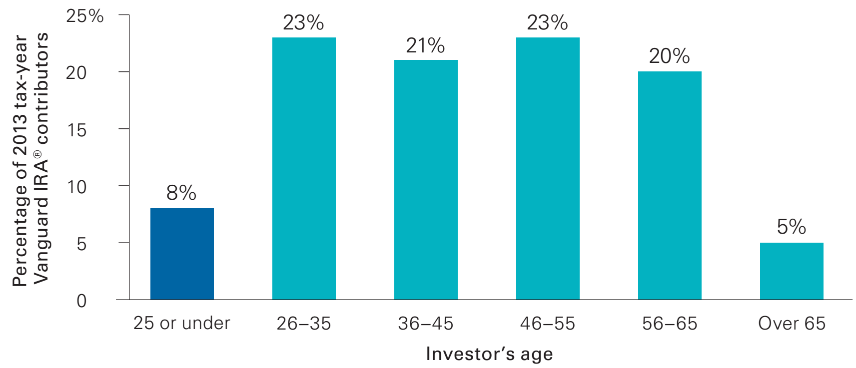
Vanguard research | May 2014

Looking for the perfect graduation gift? Consider a Roth IRA.

Vanguard contribution data show that only 8% of IRA contributors for U.S. tax-year 2013 were under age 25.

Helping your graduate fund an IRA can ensure he or she doesn't miss out on "prime saving years." Almost any graduate with earned income can make an IRA contribution.

IRA investors can be slow getting to the starting line



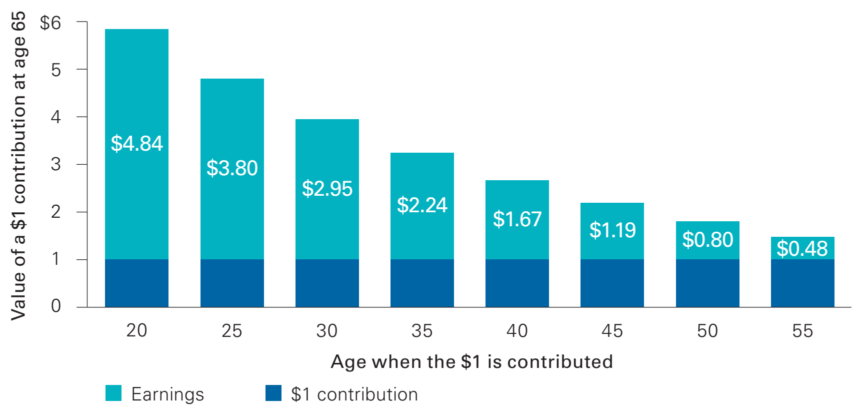
Source: Vanguard.

Providing for a secure retirement is easier if graduates leverage an asset they have in abundance: time.

Compounding is a term describing the snowball effect that happens when you generate more earnings on top of earnings.

Because of compounding, every dollar contributed at age 20 can earn more than twice as much as a dollar contributed at age 35, and more than ten times as much as one contributed at age 55.

Sometimes, a penny saved is five pennies earned



Notes: This hypothetical illustration assumes 4% annual return, after inflation; amounts in today's (2014) dollars.

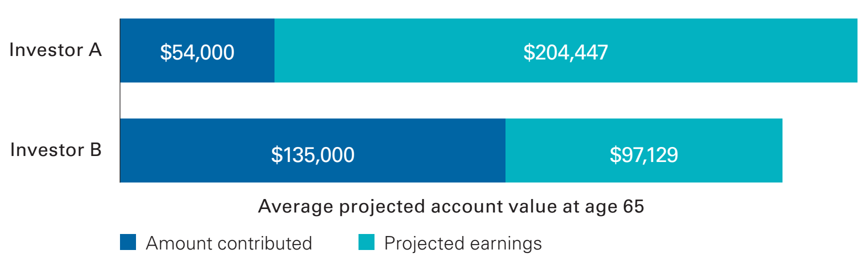
Source: Vanguard.

Getting in a savings habit right away can provide a head start that lasts a lifetime.

Consider two hypothetical investors. Investor A contributes $450 per month in a balanced-fund Roth IRA for ten years starting at age 21, and then stops. Investor B makes the same $450 monthly investment, but doesn't begin until age 40, then continues for 25 years.

On average, at age 65, Investor A will have accumulated more money for retirement, despite contributing only 40% as much.

A fast start is key to winning the retirement marathon



Notes: This hypothetical illustration assumes 4% annual return, after inflation; amounts in today's (2014) dollars. Investor A contributes $450 per month from ages 21 through 30; Investor B contributes $450 per month from ages 40 through 64.

Source: Vanguard.

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