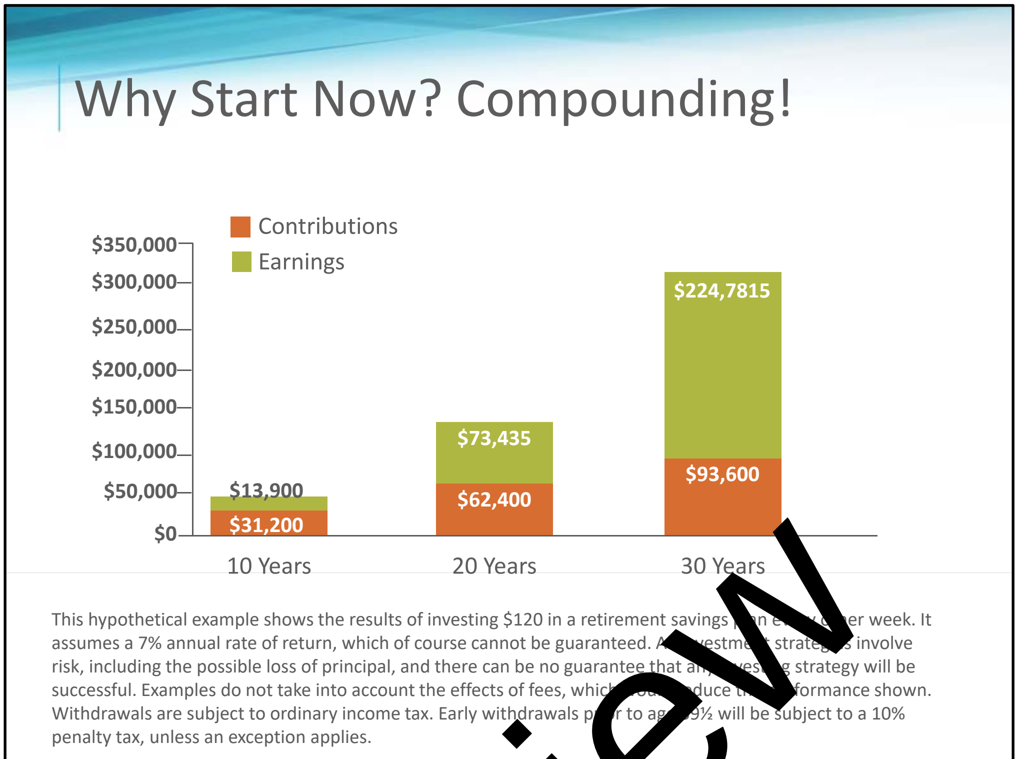

Now that you understand why it's so important to plan ahead for retirement, let's examine why it's also important to start contributing now rather than putting it off until later.

This chart shows the benefits of compounding. Basically, when you contribute to your retirement savings account, the intention is that your contribution dollars will earn returns. Then those returns could potentially earn returns themselves … and so on. The more you contribute to your plan, the more you may earn, and the more those earnings can work for you by earning additional returns. Of course, keep in mind that your investments may earn very little or even nothing at all; it's also possible that you could lose your contribution dollars. But assuming you do earn money, and those earnings earn returns themselves, over time the process can snowball. That's compounding. And the longer your time horizon, the more powerful the effects of compounding can potentially be.

This hypothetical example shows the results of investing $120 in a retirement savings plan every other week. It assumes a 7% annual rate of return, which of course cannot be guaranteed.

Let's take a close look at the results. After 10 years, you would have invested a total of $31,200 and had earnings of $13,900, for a total of $45,100. That's pretty good. After 20 years, you would have invested $62,400 and had earnings of $73,435, for a total of $135,835 — even better. And after 30 years, you would have invested $93,600 and had earnings of $224,781, for a total of more than $300,000. That's compounding at work. The sooner you start saving, the less you may have to set aside to adequately pursue your goals.

There will always be competition for your hard-earned dollars — mortgage, rent, car payments, college payments, tablets, mobile phones, and other gadgets (and perhaps kids who want their own tablets, mobile phones, and other gadgets). But when you look at the examples in this chart, you can see how delays in saving for retirement can be very costly. Even if it's just a small amount every pay period, start contributing today. Small amounts can add up over time through the power of compounding.