The 1% Difference Part 2: Striving for Higher Returns – Video Transcript

We’ve seen how increasing your retirement plan contributions by 1% can make a big difference over time. Now let’s look at the difference earning 1% more on your portfolio can make over time.

Let’s say, for example, that you make $75,000 a year and contribute 4% of your salary to your employer-sponsored retirement plan. Assuming nothing else changes and you earn a 6% average annual return on your investments--which cannot be guaranteed—you could have more than $250,000 after 30 years–that’s not bad.

Now let’s say your investment earnings increase from an average of 6% to an average of 7% per year. Using the same assumptions as before, your results would look like this.

After 30 years, you could have more than $300,000.

That’s the difference earning 1% more on your investments can make. After 10 years, you could have about $2,000 more; after 20 years, about $15,000 more; and after 30 years, about $54,000 more.

Note, however, that this is a simplified example meant to illustrate how a small difference in returns can affect your portfolio. Your actual investment returns will likely change over time.

So how can you try to earn 1% more?

Although there are no guarantees that any specific target will be achieved, you can strive for higher returns by adjusting your asset allocation to include a larger portion of growth-oriented investments, such as stocks.

Stocks typically carry higher risk than bonds and cash investments, and therefore typically offer the potential for higher returns as well. But there’s a catch: There’s also a stronger chance of losing money in stock investments.

Before making any changes in your investment mix, take some time for reflection. Consider how much risk you can comfortably live with in pursuit of higher returns. The younger you are, the more time you may have to ride out any losses that may occur in your account.

On the other hand, the closer to retirement you are, or the sooner you may need to access the money, the less risk you may want to assume. Your time horizon is just one factor to consider when putting together an asset allocation.

Fortunately, help is available. Your retirement plan's education materials may include tools to help you assess your personal risk tolerance. In addition, a financial professional can help you develop an appropriate investment strategy for your needs.

There is no assurance that working with a financial professional will improve your investment results.