The 1% Difference Part 1: Increasing Your Retirement Plan Contributions – Video Transcript

One percent may not sound like a lot. But when you're talking about dollars and cents, 1% can make a big difference over time.

Let's say, for example, that you make $75,000 a year and you contribute 3% 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--your results would look like this: More than $188,000 after 30 years–that's not bad.

Now let's say you decide to increase your contribution by just 1%, from 3% to 4% of your salary. Using the same assumptions as before, your results would look like this. After 30 years, you would have more than $250,000.

That's the difference 1% can make. After 10 years, you could have an extra $10,000; after 20 years, an extra $29,000; and after 30 years, and additional $63,000.

The more you contribute and the longer you leave your money untouched, the stronger the results may become–all due to the power of compounding.

Compounding is what happens when your investment dollars earn returns, and then those returns earn additional returns. Over time, the process can snowball and help put extra power in your retirement savings plan.

So why not give an extra boost to your retirement savings? Consider increasing your plan contribution rate by a percentage point or two today, and then try to increase your contributions whenever possible, until you reach the maximum your plan allows.

Please note that plan maximums will differ, depending on your plan's rules.