

The Simplest Way to Wind Up With More Money in Retirement

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Want more money in retirement? It may be time to ask for a raise. While asking employers to reward you with a bigger paycheck is anxiety-producing for many people, getting those raises can lead to significantly more money in retirement.

Pay and retirement income are closely linked

The average worker is expected to get a pay increase of about 3% in 2016, but above-average workers could land pay increases of 4% or 5% and below-average workers could receive a pay raise of 1% or less, a survey by Towers Watson reports.

A few percentage points difference in annual pay increases can end up being a retirement game-changer because it can:

- Create a higher base pay upon which future raises will be calculated.
- Increase the amount of money that gets set aside in retirement accounts annually.
- Lead to a bigger Social Security check in retirement.

First, let's see how bigger pay raises make a difference in your annual income over time.

If you make \$40,000 and you get a 1% pay increase every year, then your annual income will grow to \$48,808 in 20 years. But if you get a 4% pay raise per year instead, then your annual income would grow to \$87,645 in 20 years. Therefore, that extra 3% annual increase in pay translates into an annual salary that's almost \$39,000 bigger in the years leading up to retirement!

The size of your annual increases also has a big impact on the amount of money that's automatically deducted from your paycheck and invested in your employer-sponsored retirement plan, such as a 401(k), thereby increasing your retirement savings.

A 1% annual pay increase and a 8% annual salary contribution to your 401(k) plan means you'll set aside \$71,165 over 20 years. Net a 4% pay increase annually instead, and you'll stash away \$99,101 over 20 years.

That extra money in your 401(k) will also pay off thanks to the power of compound growth -- the fact that the profits you earn can earn profits in turn.

Assuming your 401(k) earns a hypothetical average return of 6% per year, then the 1% pay raise scenario results in a portfolio that's worth \$131,264 in 20 years. That's not bad, but the value of the portfolio in the 4% pay raise scenario jumps to \$167,801, and that's better.

Negotiating better raises will also lead to bigger monthly Social Security checks in retirement. Social Security calculates your monthly Social Security payment using your top 35 income-earning years. Therefore, the more money you earn every year thanks to pay increases, the more money you'll pocket in retirement from Social Security.

Also, because Social Security only uses 35 years of income in its calculation, high-earning years replace low-earning years if you work longer than that. Work 45 years, and you'll replace 10 low-earning years from the beginning of your career with 10 high-earning years from the end of it.

Landing a bigger paycheck

With so much at stake, it's time to take stock of your accomplishments so that you can convey your value to your employer.

Begin by researching salaries based on your job title and where you live. You can get insight into the average pay for your position from websites like Salary.com. Once you know what the average person in your role earns, adjust that figure based on your own personal qualifications. Make sure to consider both your professional skills and training, as well as less quantifiable talents such as interpersonal, organizational, and problem-solving skills.

Once you've developed an idea of how much you're worth, spend time practicing how you'll answer questions that may be posed by your employer when you discuss your compensation. It may also help to prepare solutions for problems challenging your employer and a game plan for your own personal development that you can share with them. For example, prepare a binder that offers suggestions on a project, or highlight a certificate program at a local college that you'll be enrolling in.

If your employer balks at giving you the raise you were hoping for, ask what skills you can learn to increase your value, and whether there are other projects you can take on to demonstrate your worth. Overall, honesty and professionalism is important, even if you don't get the increase you want.

Tying it together

Maximizing savings for retirement depends a lot on your financial flexibility during your working years. Every additional percentage of income you can earn at work every year can translate into thousands of dollars in additional retirement savings and retirement income, so don't shy away from what many find to be an awkward discussion. After all, landing a big raise isn't just about making more money now. It will also go a long way toward giving you financial security when you retire.

The article [The Simplest Way to Wind Up With More Money in Retirement](http://www.foxbusiness.com/markets/2016/05/22/simplest-way-to-wind-up-with-more-money-in-retirement.print.html) originally appeared on Fool.com.

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