



## Money Math — Discover the Power of 72

Every young person (and the young at heart) should understand compound interest and the power of 72 before they begin earning, investing and spending.

Compound interest is interest that accrues based on the total balance of principle and accumulated interest. The earlier you start saving, the more you will benefit from compound interest.

Here's an example of two friends, Grace and Drew, who had different saving strategies. Grace saved \$1,000 a year for 10 years, starting at age 25. Drew saved \$1,000 a year for 25 years starting at age 40. Both earned the same 8% return. Who ended up with more money at age 65? Grace benefited from her head start and the power of compounding because her \$10,000 grew to \$157,435.17, whereas, Drew's \$25,000 grew to \$78,954.42.

The pace at which your savings or investments grow when you receive compound interest lies in something called the "Rule of 72." When you divide 72 by the interest rate, the answer tells you approximately how many years it will take your savings or investments to double in value. Here's an example:

You've deposited \$1,000 into a savings account with a 2% interest rate. Divide 72 by 2 and you get 36. It will take 36 years for your \$1,000 to double to \$2,000 if you don't make any additional deposits. If you add a higher interest savings vehicle like a five year certificate of deposit (CD), with an interest rate of 4%, it will take 18 years for your balance to double.

Let the power of the Rule of 72 become one of your financial success tools.