Working with COMPOUND INTEREST

IT'S A MONEY THING®

SIMPLE INTEREST vs. COMPOUND INTEREST

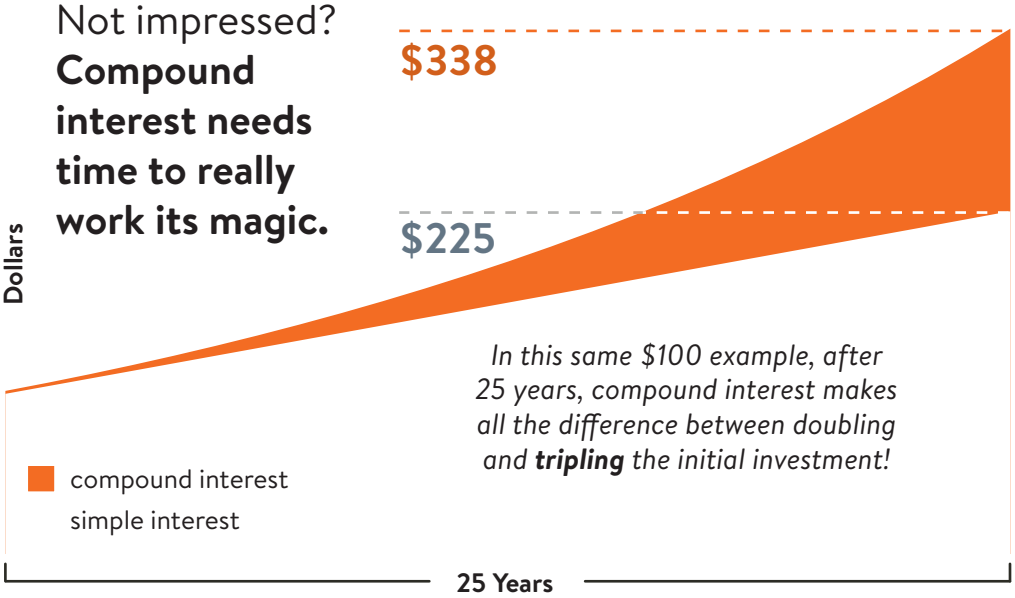
Simple interest is calculated using your initial investment only. With compound interest, the interest you earn is added to your initial investment, meaning **you earn interest on your interest.**

Let's say you put $100 into a certificate of deposit with a 5% interest rate. Look at the comparison below:

After 5 years, the account with compound interest earns **$2.63** more.

	simple interest	compound interest
after 1 year	**$105**	**$105.00**
after 2 years	**$110**	**$110.25**
after 3 years	**$115**	**$115.76**
after 4 years	**$120**	**$121.55**
after 5 years	**$125**	**$127.63**

Not impressed? **Compound interest needs time to really work its magic.**



*In this same $100 example, after 25 years, compound interest makes all the difference between doubling and **tripling** the initial investment!*

Think Ahead

Acknowledge that you have large financial goals on the horizon, like buying a home and retiring.

Start Early

With compound interest, saving a little bit now means earning ***a lot*** more interest later. Get started today!

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VOCAB

Here are some of the terms you might come across when dealing with compound interest:

APR

This is the **annual percentage rate**. It's a nominal interest rate, meaning it stays constant year to year.

APY

This stands for **annual percentage yield**. It's an effective interest rate, meaning it takes into account the effect of compound interest.

Principal

In savings and investments, this refers to the original amount of money invested.

Compound Period

This refers to how many times the interest is added to your principal. For example, investments can compound annually or monthly.

→ **Are you earning interest right now?** Call or visit your credit union and ask about savings and investment options.

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