Compound Interest
THE RULE OF 72

IT'S A MONEY THING®



"Money makes money. And the money that money makes, makes money."

– *Ben Franklin*

Compound interest means earning interest on your interest—you can use the

Rule of 72

to approximate how long it will take for an investment to double at a given interest rate. It's useful for:



COMPARING INVESTMENTS



SAVINGS GOALS



RETIREMENT GOALS

Divide the rule number **(72)** by the annual interest rate **(R)** to find out the approximate time **(T)** required for doubling. The Rule of 72 only applies to compound interest, not to simple interest calculations.

INTEREST RATE ↓ — YEARS TO DOUBLE ↓

72 ÷ R = T

– FOR EXAMPLE –

72 ÷ 3 = 24

↑ 3% ANNUAL INTEREST RATE — ↑ 24 YEARS TO DOUBLE

Although scientific calculators and spreadsheet programs have functions to find the accurate doubling time, the Rule of 72 is useful for mental calculations or when only a basic calculator is available.

This table illustrates just how close the Rule of 72 is to the actual doubling time.

Interest rate	Actual years	Rule of 72
1%	69.66	72.00
2%	35.00	36.00
3%	23.45	24.00
4%	17.67	18.00
5%	14.21	14.40
6%	11.90	12.00
7%	10.24	10.29
8%	9.01	9.00
9%	8.04	8.00
10%	7.27	7.20

Modest increases in rates have a dramatic effect on the doubling time.

Years	1.5%	3%	6%	12%
0	$10,000	$10,000	$10,000	$10,000
6	*In times of historically low interest rates, it's especially important to start investing early*			$20,000
12			$20,000	$40,000
18				$80,000
24		$20,000	$40,000	$160,000
30				$320,000
36			$80,000	$640,000
42				$1,280,000
48	$20,000	$40,000	$160,000	$2,560,000



THE TAKEAWAY

Use the Rule of 72 to estimate your potential savings. Time is money when it comes to compound interest—the longer you wait to get started, the less interest you'll earn.

INVESTING CAN BE RISKY

Not all investments are guaranteed—some investments carry the risk of losing money, even when made through a financial advisor or financial institution

BROUGHT TO YOU BY

QUALSTAR® CREDIT UNION
www.qualstarcu.com

It's a Money Thing is a registered trademark of Currency Marketing