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The Power of Compound Interest

How important is it to begin putting aside money for savings right now, as opposed to sometime later?

The following chart illustrates the effect of compound interest on savings over the course of 40-plus years. It shows that now is the time for saving.

The sooner you start to save, the greater the benefit of compound interest. Compound interest is the interest earned on reinvested interest, in addition to the original amount invested.

Here's an example: Two different individuals--Darryl and Cheryl, each 22 years old--have an extra \$2,000 a year to invest or spend as they choose. Darryl opens an Individual Retirement Account (IRA) to start saving. Cheryl chooses to spend her \$2,000.

In this example, Darryl's IRA earns 12% per year. Darryl saves \$2,000 per year for six years, then never puts another cent into his IRA.

Cheryl spends her \$2,000 per year for six years. After that time, she invests \$2,000 per year until she is 65 years old. Cheryl earns the same 12% interest per year that Darryl does.

The chart below shows the value of Darryl's and Cheryl's respective IRAs, from the time they are 22 years old all the way to 65. Keep in mind, Darryl's total investment is \$12,000 (\$2,000 per year for the first six years), while Cheryl's is \$74,000 (\$2,000 per year for the last 37 years).

Age	Darryl	Cheryl
22	\$2,240	\$0
23	4,509	0
24	7,050	0
25	9,896	0
26	13,083	0
27	16,653	0
28	18,652	2,240
29	20,890	4,509
30	23,397	7,050
35	41,233	25,130
40	72,667	56,993
45	128,064	113,147
50	225,692	212,598
55	397,746	386,516
60	700,965	693,879
65	1,235,339	1,235,557

As you can see, with compound interest, the earlier you start saving, the greater the accumulated interest on your original investment. The important thing is to start saving your money. The best time to start saving is now--no matter how large or small the amount. It's never too late to start. Remember, today is the first day of the rest of your life, so get time on your side and plan for your future by starting to save--now.