

# Working with COMPOUND INTEREST

- IT'S A -  
**MONEY  
THING**<sup>®</sup>

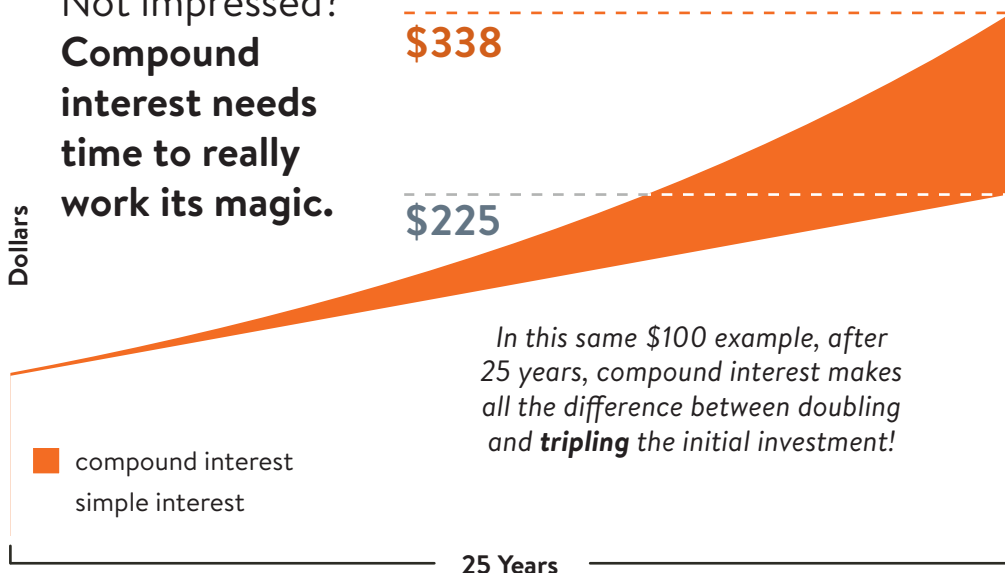
## SIMPLE INTEREST vs. COMPOUND INTEREST

**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:

|   | simple interest | compound interest |
|---|-----------------|-------------------|
| After 5 years, the account with compound interest earns <b>\$2.63</b> more. |                 |                   |
| 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.**



## 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.



### 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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