But what if you shorten your savings period to just 10 years? Then you have to save more and/or consider taking more risk. It would be almost impossible to earn a rate of return high enough to reach your $100,000 goal with the same amount of annual savings in just 10 years. So, what if you invested your annual savings in a vehicle earning an 8% rate of return? You would need to save $6,559 each year to reach $100,000. Remember, the higher the rate of return an investment vehicle has the potential to earn, the higher the risk that you could lose some or all of your money.

remember, the higher the earning potential of an investment, the higher the risk of losing your money

Go for the savings bonanza.

When you start saving early **and** focus on tax-advantaged savings, you're way ahead of the game. With employer-sponsored 401(k) and similar plans and individual retirement accounts (IRAs), your money is not currently taxed as it grows—giving you even more money to save and invest. With more money and more time to save, there is even more magic in the "magic" of compounding.

Choose to Save.®

www.choosetosave.org

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The Magic of Compounding

Choose to save and watch your money grow... and grow.

It *doesn't take a fairy tale to achieve financial security.* But if you start saving early and keep at it, you can benefit from the "magic" of compound interest that helps your money grow.

_achieve dramatic results
with compound interest_

Simply stated, compound interest means that you earn interest on the _original_ amount you've saved, and then you continue to earn interest on the interest. This phenomenon goes on and on—packing your savings with power and moving you steadily toward your savings goals. Over time, the results can be dramatic.

To achieve lifetime financial security, you want your money to grow many times larger than its original value. With the magic of compounding at work, you can predict when you will double your money. It's called the Rule of 72—you simply divide 72 by the interest rate you'll earn on your investment. For instance, at a constant 6% interest rate, your money will double in approximately 12 years (72 divided by 6).

The best news is that you can earn interest on even small amounts of savings—so you can start the magic of compounding today.

Start early, save more.

The longer your money is invested, the better compounding works for you. It's not just that you give your money the chance to grow over many years, it's also the fact that the earlier you start, the less you have to save to reach your personal goal. The longer you wait or the more often you stop, the harder it is to make up for lost interest earnings.

If you're in the market for a house and you start saving a year or two before you want to move in, there's little time to make your money grow. But if you start saving when you get your first job and you aim to buy a house in 10 years, the magic of compounding can put your money to work.

Say that you want to save $10,000 for a house down payment. Even in only two years, compounding makes a difference. If you try to save this amount of money in two years, you would have to save $401 a month assuming you save in a vehicle earning a 4% rate of return compounded monthly. After two years, you've invested almost $9,624 and earned almost $376 in interest.

_catch the savings fever
for a lifetime of financial
security_

But, if you start earlier, and try to save the same $10,000 in 10 years in the same vehicle earning 4%, your monthly savings requirement is only $68. That's a lot better than $83 a month ($10,000 ÷ 120) And, after 10 years, you've invested about $8,160 and earned almost $1,840 in interest. Wow!

Final Total	Amount Invested	Interest Earned
$159,557	**$22,000**	**$137,557**
Saved $2,000 per year from age 20 through age 30. Kept money in account until age 65.		
$337,746	**$90,000**	**$247,746**
Saved $2,000 per year from age 20 to age 65.		
$189,353	**$70,000**	**$119,353**
Saved $2,000 per year from age 30 to age 65.		
$99,254	**$50,000**	**$49,254**
Saved $2,000 per year from age 40 to age 65.		
$44,549	**$30,000**	**$14,549**
Saved $2,000 per year from age 50 to age 65.		

Assumes a 5% annual rate of return compounded monthly.

Manage your risks and maximize your returns.

When you start saving early and consistently, you can take a slow and steady route to your goals. Let's say that you have a goal to save $100,000. If you have 20 years to reach this goal, you could choose fairly conservative investments that earn, for example, a 4% rate of return. At this earnings rate, you need to invest $3,272 per year, and the magic of compounding helps you reach your goal.