# *Working with* COMPOUND INTEREST

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## SIMPLE INTEREST vs. COMPOUND INTEREST

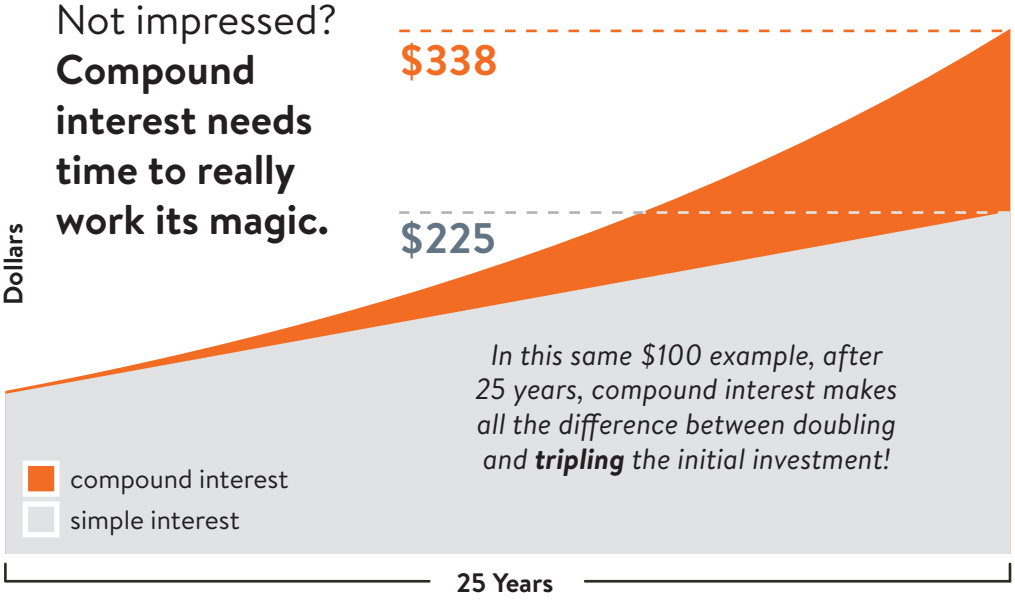
**Simple interest is calculated using your initial investment only. With compound interest**, the interest you earn is added to your initial investment, meaning **you earn interest on your interest.**

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.**




### 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!

## 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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