

Saving: The Key to Financial Success

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Pay yourself first

- Although you may find it difficult at first, the key is paying yourself first. It is an easy way to get in the habit of saving. Before long, you will be very happy that you are saving and paying yourself first, and not last.

Do it automatically

- Pay yourself first automatically. It's easy to do electronically. Simply have a certain amount from your paycheck deposited into a financial account. You'll complete a form authorizing your bank (or whatever institution) to receive a portion of every paycheck and deposit it into your savings account. This is a great way to build up your savings—if you don't see the money, you won't miss it.

Save 10% of your paycheck

- A good rule of thumb is to save 10% of your paycheck. If this feels too high, try 3% for a while. Then, try to work up to saving 6% of your earning until you can get to the 10% target saving goal of. You will thank yourself over and over for doing it, once you've retired.

The power of compound interest

- Compound interest is the concept of adding accumulated interest back to the principal, so that interest is earned on interest from that moment on. The act of declaring interest to be principal is called compounding (i.e. interest is compounded). A loan, for example, may have its interest compounded every month: in this case, a loan with \$100 principal and 10% interest per year would have a balance of \$110 at the end of the first month.
- Compound Interest has the ability to multiply money almost magically. There is a story that Einstein was once asked, "What is the most powerful force in the universe?" his immediate response was "Compound Interest".

Example: Let's say you start out with \$100 and it earns 5% compound interest. When your interest is compounded, the bank takes the interest that your account has earned during the previous day, week, month, or year. It adds that interest to your principal and then calculates your new interest payment. If you receive 5-percent compounded interest on a principal of \$100, your investment would grow like this:

Year 1: \$105.00 Year 2: \$110.25 Year 3: \$115.76 Year 4: \$121.55 Year 5: \$127.63

Doubling Your Money—The Rule of 72

- How long will it take for your investment to double with compound interest? To find out, use the Rule of 72. Divide 72 by the interest rate you expect to receive on an investment. For example, if your investment earns 6 percent interest, your money will double in 12 years (72 divided by 6 equals 12).

| At an interest rate of: | Your investment will double in: |
|--------------------------------|--|
| 2% | 36.0 years |
| 4 % | 18.0 years |
| 8% | 9.0 years |
| 10% | 7.2 years |
| 12% | 6.0 years |

**Remember!
Save Monthly
Start Early**