COMPOUND INTEREST AND SAVING · PART 6 OF 8 · AGES 13+

Compound Interest in Everyday Life

Where compounding helps savers, where it works against borrowers, and where the same maths makes things shrink. All numbers are illustrations.

Savings accounts

Interest added to a savings balance earns interest too. At an example 3% a year, 1,000 becomes 1,030 after a year and 1,343.92 after 10 years.

Loans

A borrower pays interest on whatever is still owed. Repayments shrink the balance; interest that is added and not paid makes the debt grow like savings do.

Credit card debt

Many cards add interest daily. At an example 20% APR, 1,000 left unpaid with no payments would grow to about 1,221.34 in a year: compounding working against you.

Student loans

Many student loan schemes charge interest. In some, such as England's, it is added from the first payment, even while you study. The rules differ widely by country.

Inflation eating savings

Rising prices compound too. At an example 3% inflation, 1,000 kept as cash for 10 years would buy only what about 744 buys today.

Starting early vs late

1,000 left at an example 5% a year for 40 years grows to 7,039.99; left for 20 years it reaches 2,653.30. The extra 20 years more than doubles the result.

Things that lose value

Compounding can shrink things too. A car worth 10,000 that loses an example 15% of its value each year is worth 6,141.25 after 3 years.

Same maths, both directions

Compounding helps when you are the one earning interest and hurts when you are the one paying it. These numbers are illustrations of the maths, not predictions or financial advice.

NEXT IN THE SERIES

7. Common Compound Interest Mistakes and How to Avoid Them

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