COMPOUND INTEREST AND SAVING PART 4 OF 8 · AGES 13+

The Rule of 72

A quick way to estimate how long a balance takes to double, checked against the exact answer at six example rates.

72 ÷ rate

≈ years for money to double at a fixed yearly rate

Divide 72 by the rate in per cent. It is a mental shortcut, not an exact formula.

36 years

to double at an example 2% a year (72 ÷ 2)

Exact: 35.00 years. At low rates the rule comes out a little too high.

18 years

to double at an example 4% a year (72 ÷ 4)

Exact: 17.67 years.

12 years

to double at an example 6% a year (72 ÷ 6)

Exact: 11.90 years.

9 years

to double at an example 8% a year (72 ÷ 8)

Exact: 9.01 years. Around 8% the rule is almost spot on.

8 years

to double at an example 9% a year (72 ÷ 9)

Exact: 8.04 years.

6 years

to double at an example 12% a year (72 ÷ 12)

Exact: 6.12 years. At higher rates the rule comes out a little too low.

Only an approximation

The rule assumes one fixed rate with interest added once a year. Real rates change and investment returns are not guaranteed. Exact doubling time = log 2 ÷ log(1 + r).

NEXT IN THE SERIES

5. Compound Interest Key Terms: APR, AER, APY and More

Free to share · CC BY-NC 4.0 · Sources at infographhub.com