THE JOY OF COMPOUNDING

Money placed in a savings account generates interest during its initial period. If you don't withdraw the savings or interest, you continue to get interest on the original amount plus the interest you have already earned.

As we approach old age, our medical expenses and cost of living increase as our ability to think, work, and earn money decreases. Because some people know they don't have enough savings, they are too afraid to think about how much they will need, which only makes the situation worse.

If you and your spouse retire at 65, one of you is likely to live to age 92. In 2008, a very inexpensive nursing home costs well over $3,000 per month, and medicine for many elderly people can cost over $1,000 per month; yet the average wealth of a U.S. citizen at death is only $47,000. The maximum Social Security benefit in 2006 for a person who is 67 was $18,000 per year, which is well below the poverty level.

> Social Security alone cannot sustain you.
> If you aren't saving a lot of money for your old age,
> you'd better stay on good terms with your children.

While you are trying to earn a living, get your kids through college, and help them with down payments, you need to realize that if you are 50 years old and you don't have enough money to supplement your Social Security, there is not enough time left for you to earn and save what you will need. Look at the difference between investing $2,000 a year for 10 years starting at age 20 compared to starting at age 50. If you save $2,000 a year between the

time you are 20 and 30, by the time you become 70, it could grow to almost a half a million dollars. If you save $2,000 per year starting at age 50, when you get to age 70 you will only have $29,567.

The charts below show the effect of investing $2,000 at the beginning of each year for 10 years (in a tax deferred retirement account like an IRA) with no further investment, then letting the principal and interest compound.

SUMMARY CHART
($2,000 invested per year for ten years)

10 year periods		Interest @ 7%	Value of Investment
1st	10	$ 9,567	$ 29,567
2nd	20	28,596	56,163
3rd	30	56,252	114.415
4th	40	110,657	225,072
5th	50	217,679	442,751

The longer you leave your money invested, the faster it grows. You earn far more during the last years of your investments than you do on the first.

Note that the amount of money you earn on your original investment just about doubles every 10 years. In the last period alone, you earn $217,679, which is more than all the money you earned in the preceding 40 years combined. You can invest any amount at any age, but in this example when you start to save you always begin as if you were 20, not at the age you are when start to invest.

When you borrow money to pay for living expenses
it affects your pocket book the same way as a cut in pay.

If your boss asks you to take a $2,000 cut in pay this year you'd be furious, right? But if you are paying $1,800 in interest per year on credit cards or loans, isn't that the same thing?

How much interest have I earned in my lifetime? ___
How much interest have I paid in my lifetime? ___
Am I earning enough money to sustain our current life style and support us in our old age? _____
How do I plan to make up the difference? _____

Skillful Thoughts

Underlined statement holds me back. Arrowed statement will empower me.

<u>How can I save when I can't live on what I am making?</u>

- I will make more money and spend less on non-essentials
- An employer will hire me over a guy who is just looking for a pay check, if he knows I have ambition, and the work I do for him will help my own career
- If I want to make a lot of money I better start now, because I have to compete with people who will do whatever it takes to make more.