COMPOUND INTEREST 101

Compound interest is one of the great wonders of investment – and it's not nearly as complicated as many think. Here's how it can add up.

Meet Simphiwe and Jana, two 25-year-olds. Their employer does not offer a retirement fund and they have been encouraged to make their own provision for retirement. One of the options is a savings vehicle that aims to achieve an estimated compound interest of 5% until they retire at 65.

SIMPHIWE

Simphiwe immediately sets up a debit order to invest R2 000 per month towards his retirement savings.

After being promoted to management, Simphiwe decides not to buy a flashy car. Instead, he keeps driving his student car and continues saving R2 000 each month.

Because Simpiwe is on Jana's team, he also gets a bonus but resists the temptation to splash out on a big family holiday. Instead, he puts most of it towards his retirement savings (after treating his family to a weekend away).

AT 65, SIMPHIWE'S RETIREMENT SAVINGS COMES TO

R3.07 MILLION.

JANA

Jana decides to enjoy her newfound independence first and wait 10 years before starting to save for her retirement. She treats her friends to dinner with her first pay cheque.

Ten years later, Jana arranges a debit order to invest R2 000 per month into the same savings vehicle as Simphiwe at the same 5% compound interest rate.

Thanks to Jana, the company signs a big client and she gets a huge bonus. Simphiwe advises her to add it to her retirement savings to give it a boost but she celebrates with a trip to France instead.

AT 65, JANA'S RETIREMENT SAVINGS COMES TO

R1.67 MILLION.

TO GET STARTED

CALL 011 217 1713

EMAIL tmabogoane@oldmutual.com

VISIT www.oldmutual.co.za/financial-wellbeing

GOOD TO KNOW

How early you start is more important than how much you save. Despite contributing only R240 000 more than Jana (R960 000 vs R720 000), Simphiwe's retirement savings is almost double hers, thanks to the compound interest he earned in the first 10 years.