# THE RABBIT EFFECT...
THE MAGIC OF COMPOUND INTEREST

Did you know…

… that the bulk of the money you would have saved for retirement over a 40 year period would consist of interest and NOT your monthly contributions? If you've saved a fixed monthly amount for 40 years, almost 90% of your total savings would be interest earned. Only 10% would be your actual savings. **Extraordinary isn't it? That is the ★magic of compound interest★!**

Total Retirement Savings Over 40 Years
- Actual Savings
- Interest Earned
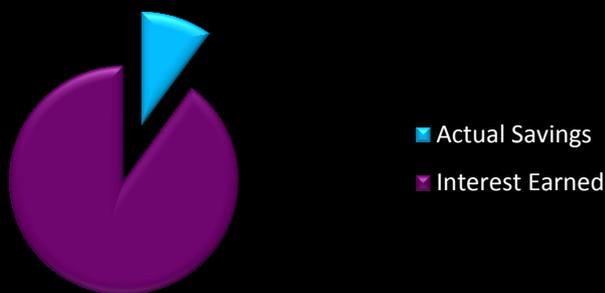
So what is compound interest?

Compound interest is best explained by looking at a simple example. Let's assume you will earn 10% interest per year on an investment:

START: R100 – YEAR 1

You save R100 in a bank account for one year and earn 10% interest on that. Your total interest earned will therefore be R10 (R100 x 10%).

If you do not take the R10 interest and leave it in the account, you would now have R110 (R100 + R10) in your account.

R110 – YEAR 2   ★R10 INTEREST★

The following year your investment starts off with R110. You earn 10% interest on that, which is R11 (R110 x 10%). **You have magically earned R1 more interest this year, because of your interest earned last year.** We call this earning interest on interest.

If you do not take the R11 interest and leave it in the account, you would now have R121 (R110 + R11) in your account.

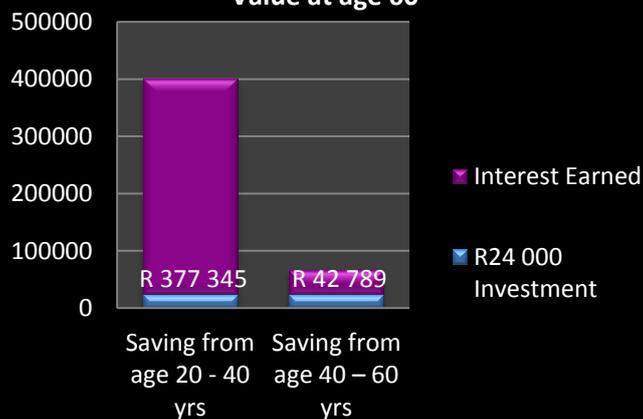### R121 – YEAR 3   ★R21 INTEREST★

The following year your investment starts off with R121. You earn 10% interest on that, which is R12.1 (R121 x 10%). You have magically earned R2.10 more interest this year, because of your interest earned the previous two years. How wonderful.

R133 – YEAR 4   ★R33.10 INTEREST★

Every year, your investment will grow exponentially because your interest is earning interest. And the longer you allow this to continue, the more dramatic the effect will be.

Let's take a look at an example:

Saving R100 a month for 20 years Value at age 60

	Saving from age 20 - 40 yrs	Saving from age 40 – 60 yrs
Interest Earned	R 377 345	R 42 789

- Interest Earned
- R24 000 Investment

In both of the cases above, a member invested R100 a month for 20 years (either from age 20 to age 40 years **OR** from age 40 years to age 60 years) at a 9% p.a. interest rate. They each only invested R24 000 of their actual money. But look at the difference in their final benefit! The member who saved from age 20 to 40 years will have a total benefit of R401 345 saved by age 60, whereas the member who saved from age 40 to 60 will have a benefit of only R66 789 saved by age 60. **Magic! Start saving early – and see your money working for you!**