



COMPOUND INTEREST

Compound interest is interest calculated on the initial principal, which also includes all of the accumulated interest of previous periods. It benefits those who use it to build wealth, and can be a burden to those who accrue interest on loans.

How can compound interest work for me?

Don't just save - invest! Take advantage of compound interest by putting your savings into an account that pays some kind of return. The rate will depend upon the amount of risk taken. Higher rates of return are associated with a higher risk of loss, and lower rates of return are associated with a lower risk of loss.

Start early. Time is money! The longer your money is invested, the more opportunities it will have to grow.

Be patient. Consistent contributions to an investment account provide more principal to compound on, which can enhance your returns. Even modest contributions over time can help you reach your financial goals.

INDIANA SECRETARY OF STATE

Diego Morales

What can I do to avoid the pitfalls of compound interest?

Be discerning about debt. Don't take on unnecessary debt. Be sure you only take on debt that you can afford to pay back, at an interest rate that won't hinder your ability to save for your future.

Pay down high-interest debts. If you already have high-interest debt, refinancing to a lower rate could be a solution for you. Do your best to pay off high-interest debts before the compound interest takes its toll on your finances.

The Bottom Line

Use compound interest to your advantage, and invest for your future. Be cautious in taking on debt and understand how compound interest can derail your finances. To learn more about investing, its benefits, and potential pitfalls, please read the MoneyWise Matters blog:

in.gov/sos/indianamoneywise/blog

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