CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

JUST THE FACTS:
HELPING YOU TALK ABOUT MONEY

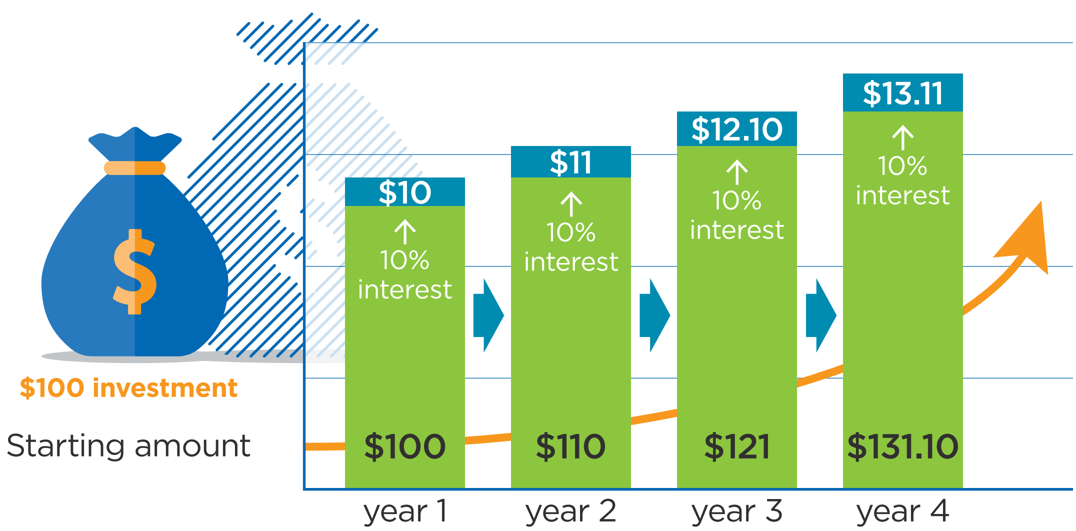
Compound Interest

Your earnings generate more earnings.

- Your investments can earn interest, which can then be added to the principal (starting) amount. In subsequent years, interest can then be earned on the new total (your original investment plus the interest).
  — For example, if you invest $100 at 10% interest for one year, you would earn $10 for that year. At the end of the year you have a total of $110. This $110 becomes your new starting amount for the next year. Compound interest would then be earned on this new amount, $11 for a total $121. If you earned 10% on that amount, this would then earn $12.10 for a total of $131.10, and so on.
- Your investment grows faster than it would if you only earned interest on the original amount (known as straight-line interest).

Your debt generates more debt.

- Just as it works in your favour when you invest, compound interest can work against you when you borrow.
- For example, if you don't pay off your credit card each month, interest is charged on the balance owing. The next month, interest will be charged on the total: the original amount + interest.
- With compound interest, you are paying interest on the interest.
- Most credit cards charge interest at 18% per year. This means your debt will double in 4 years if no payments are made.



LEARN MORE AT cpacanada.ca/justthefacts

Looking to better understand money basics and how they apply to you?
You may also be interested in taking our ***Financial Wellness Guide questionnaire****.*

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