



# ***Managing Money***

## ***How Your Money Can Grow***

# Managing Money: How Your Money Can Grow

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A real benefit of saving money is how your money can grow. Making regular payments to yourself, even in small amounts, can add up over time. The amount your money grows depends on the interest earned and the amount of time you leave it in the account.

Here's an example of your money **not** growing: if you have \$1,000 stashed away under your mattress for one year, it will still be \$1,000 at the end of the year. Your mattress is not paying you interest for keeping your money.

Now let's look at interest and the power of compounding. This is how your money can grow. When you compound interest, you earn money on the interest you leave in your account. Interest can be compounded daily, monthly, quarterly or annually. Not all savings accounts are created equal!

## Compound Interest Exercise:

\$1,000 at 5 percent compounded annually earns \$50 of interest at the end of one year. You made more than if you kept it under your mattress!

If you deposit \$1,000 in an account that has daily compounding, at the end of the first day you would have \$1,000.14. (\$1,000 at 5 percent divided by 365 days) The next day, the interest is calculated based on the entire amount of your original deposit of \$1,000 PLUS the previously earned interest—\$1,000.14 rather than just \$1,000.

By the end of one year you would have \$1,051.27. The extra \$51.27 does not seem like much at this point. However, the following table

shows the difference it makes over time.

	5 Years	10 Years
No Interest	\$1,000	\$1,000
Annual Compounding at 5%	\$1,276	\$1,629
Monthly Compounding at 5%	\$1,283	\$1,647
Daily Compounding at 5%	\$1,284	\$1,649

This table uses the same \$1,000 to show how your money grows faster the more often interest is compounded and the longer it stays in the account. The \$0.14 adds up over time!

The following table shows that even small amounts of savings add up. Look what happens when you save just \$1 a day.

	No Interest	5% Daily Compounding
Year 1	\$365	\$374
Year 5	\$1,825	\$2,073
Year 10	\$3,650	\$4,735
Year 30	\$10,950	\$25,415

At the end of year one, you would make an extra \$9 compounding interest. The real power of compounding shows at the end of 30 years, you

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would make an extra \$14,465!

The amount of interest your savings will earn depends on the **Annual Percentage Yield (APY)**. APY is the amount of interest you will earn on a yearly basis expressed as a percentage. The APY includes the effect of compounding. When comparing different accounts, you should compare the APYs of the savings products, not the interest rates. The higher the APY, the more interest you will receive. The interest you earn is considered income and is taxable.

*This resource is one in a series on **Managing Money** which include:*

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**Making your Money Work:**

Determining What Is Important to You  
Where Are You Now? (Net Worth Statement)  
Stop Spending Leaks  
Developing a Spending Plan

**Using Credit:**

What Is Credit and How Much Credit Can I Afford?  
Types of Credit: What Are Your Choices?  
Credit Cards  
Credit Reports

**Building Savings:**

Ways to Save  
How Your Money Can Grow  
Where to Save  
Investment Options

**Selecting Financial Institutions:**

Selecting a Financial Institution  
Checking Accounts  
Savings Accounts

**Creating a Record System:**

Keeping Records in Order  
Where to Keep Records

**Determining Readiness:**

Financial Readiness  
Benefits and Challenges

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