

HOW INTEREST ACTUALLY AFFECTS YOUR MONEY

What Is Interest?

Interest is the cost of borrowing money **OR** the reward for saving money.

If you borrow → you pay interest.

If you save → you earn interest.

Simple vs Compound Interest

Simple interest

Interest is calculated only on the original amount.

Compound interest

Interest is calculated on:

- The original amount
- PLUS the interest already added

This is why debt can grow quickly, and why savings can grow faster over time.

How Compound Interest Works in Real Life

Example 1: Credit Card Debt

You owe: \$3,000

Interest rate: 20% per year

You only make minimum repayments.

Because interest compounds:

- You pay interest on your interest
- The debt takes much longer to pay off
- You may pay thousands more than the original \$3,000

Takeaway: High-interest debt grows fast.

Example 2: Buy Now Pay Later or Personal Loans

Even if the advertised rate looks low, fees and compounding can add up.

Ask:

- What is the comparison rate?
- What is the total repayment amount?
- How long will I be paying this off?

Example 3: Savings Account

You save: \$5,000

Interest rate: 5%

Interest compounds yearly.

Year 1: \$5,250

Year 2: \$5,512.50

Year 3: \$5,788.13

You earn interest on your interest.

Takeaway: Time makes a big difference.

The Rule of 72 (Simple Trick)

To estimate how long it takes your money to double:

$72 \div \text{interest rate} = \text{years to double}$

Example:

$72 \div 6\% = 12 \text{ years}$

At 6%, your money roughly doubles in 12 years.

This works for both savings AND debt.

Why This Matters

Compound interest can:

Help you if:

- You start saving early
- You invest consistently
- You avoid high-interest debt

Hurt you if:

- You carry credit card balances
- You miss repayments
- You ignore loan terms

Questions to Ask Before Borrowing

- What is the interest rate?
- Is it fixed or variable?
- What is the comparison rate?
- What is the total repayment amount?
- What happens if I miss a payment?

CF Consideration

If your income fluctuates due to health:

Be cautious with:

- Long-term loans
- High-interest credit cards
- Buy Now Pay Later plans
- Build emergency savings first if possible.

SIMPLE REFLECTION ACTIVITY

My current debts:

Interest rate:

Total repayment amount:

If I increased repayments by \$___ per week, I could save:

Bottom Line

Compound interest is powerful.

It either:

- Builds wealth slowly and steadily
- or
- Grows debt faster than expected

Understanding it helps you make informed decisions.