

Really, Now!

Applying the Magic of Compound Interest

- I. Choose a realistic long-term goal for yourself. Contact a banker, investment broker, or financial planner. Find out what interest rate you could actually get on an annuity if you were to start today. If you are quoted a variable rate, for the purpose of this assignment, find out what rate it pays this month, and use that rate for your calculations. Shop around if necessary.
- II. If you could start now, what periodic payment would you have to make into the annuity plan you have chosen, in order to achieve your goal in the time frame you have set for yourself? When do you reasonably expect to graduate? If you wait to start the annuity until 6 months after you graduate (to give yourself time to find a job and settle into it), what periodic payment would you have to start making at that time? If at this point the plan seems unrealistic, you can either: (a) lower your goal, (b) give yourself more time to achieve it, or (c) both. If such adjustments are necessary, state your revised goal and/or time frame, and recalculate the required annuity payment.
- III. Suppose you were able to find a plan that pays a slightly higher interest rate, say one additional percentage point. Now what periodic payment would be required to reach the same goal in the same time frame? Suppose you get the additional percentage point interest, but make the same payment you had planned to make at the end of paragraph II. By how much would your final annuity balance exceed your goal?

Summarize this experience in writing, documenting where, when and from whom you got your rates. Make sure you have answered every question in Parts II and III. In an appendix to the report, answer this question: What have you learned?