

The Time Value of Money

"Most young people are missing the boat," says David Martin, registered representative of Waddell & Reed Financial Services. "Very few realize that only they have a very precious commodity working in their favor. And that is time. Of course, it is only an advantage if it is used."

"Being 'money smart' is something most of us do not learn in school. We wait 10 to 15 years before wising up to the roles of the money game and the mistakes we have been making.

"This chart is used to illustrate the magnitude of difference time and compounding plays in making your money work for you. This is known as the 'time value of money.'

"Individual A opens an IRA at 12 percent, invests \$2,000 a year for seven years then stops. Individual B spends \$2,000 a year on himself for seven years, then opens an IRA at 12 percent, and invests \$2,000 a year for the next **38** years. Look at age 65, Individual A, who only deposited \$12,000, has already accumulated more money than Individual B, who deposited \$76,000.

"Start early and let time work for you. It is in everyone's best interest to do financial planning at every phase of one's life," Martin said.

INDIVIDUAL A		
AGE	PAYMENT	ACCUMULATION END OF YEAR
21	\$2,000	\$2,240
22	\$2,000	\$4,749
23	\$2,000	\$7,559
24	\$2,000	\$10,706
25	\$2,000	\$14,230
26	\$2,000	\$18,178
27	\$2,000	\$22,599
28	-0-	\$25,311
29	-0-	\$28,348
30	-0-	\$31,750
31	-0-	\$35,560
32	-0-	\$39,827
33	-0-	\$44,606
34	-0-	\$49,960
35	-0-	\$55,954
36	-0-	\$62,669
37	-0-	\$70,189
38	-0-	\$78,612
39	-0-	\$88,045
40	-0-	\$98,611
41	-0-	\$110,444
42	-0-	\$123,697
43	-0-	\$138,541
44	-0-	\$155,166
45	-0-	\$173,786
46	-0-	\$194,640
47	-0-	\$217,997
48	-0-	\$244,156
49	-0-	\$273,455
50	-0-	\$306,269
51	-0-	\$343,022
52	-0-	\$384,184
53	-0-	\$430,287
54	-0-	\$481,921
55	-0-	\$539,751
56	-0-	\$604,522
57	-0-	\$677,064
58	-0-	\$758,312
59	-0-	\$849,309
60	-0-	\$951,227
61	-0-	\$1,065,374
62	-0-	\$1,193,219
63	-0-	\$1,336,405
64	-0-	\$1,496,773
65	-0-	\$1,676,386
	TOTAL INVESTED	\$ EARNED
	\$14,000	\$1,676,386

INDIVIDUAL B		
AGE	PAYMENT	ACCUMULATION END OF YEAR
21	-0-	-0-
22	-0-	-0-
23	-0-	-0-
24	-0-	-0-
25	-0-	-0-
26	-0-	-0-
27	-0-	-0-
28	\$2,000	\$2,240
29	\$2,000	\$4,749
30	\$2,000	\$7,559
31	\$2,000	\$10,706
32	\$2,000	\$14,230
33	\$2,000	\$18,178
34	\$2,000	\$22,599
35	\$2,000	\$27,551
36	\$2,000	\$33,097
37	\$2,000	\$39,309
38	\$2,000	\$46,266
39	\$2,000	\$54,058
40	\$2,000	\$62,785
41	\$2,000	\$72,559
42	\$2,000	\$83,507
43	\$2,000	\$95,767
44	\$2,000	\$109,499
45	\$2,000	\$124,879
46	\$2,000	142,105
47	\$2,000	\$161,397
48	\$2,000	\$183,005
49	\$2,000	\$207,206
50	\$2,000	\$234,310
51	\$2,000	\$264,668
52	\$2,000	\$298,668
53	\$2,000	\$336,748
54	\$2,000	\$379,396
55	\$2,000	\$427,166
56	\$2,000	\$480,665
57	\$2,000	\$540,585
58	\$2,000	\$607,695
59	\$2,000	\$682,859
60	\$2,000	\$767,042
61	\$2,000	\$861,327
62	\$2,000	\$966,926
63	\$2,000	\$1,085,197
64	\$2,000	\$1,217,661
65	\$2,000	\$1,366,020
	TOTAL INVESTED	\$ EARNED
	\$76,000	\$1,366,020