

NEWS FROM

KHEAA–Alabama

Contact: Tim Ballard
Phone: 502-696-7372
Email: tballard@kheaa.com

Money Tip for Students, October 2021

What students need to know about interest rates when investing

Alabama students who want to invest some of their earnings should learn more about interest rates. Learning the basics about simple interest and compound interest will help them make better investment decisions, according to KHEAA–Alabama.

In a savings or investment account, you might receive a compound interest rate, which means you don't just earn interest based on a percentage of your initial deposit; you earn interest based on a percentage of your initial deposit plus a percentage of the interest you've previously earned.

If you make an initial investment of \$10,000 at a 3 percent compound interest rate, compounded annually, you'll have \$18,061 in your account in 20 years, and \$32,620 in your account in 40 years — your money will have more than tripled without your touching it. Without compound interest, if you were just earning \$300 in interest each year off your initial \$10,000 investment (simple interest), your account only would have grown to \$16,000 after 20 years and \$22,000 after 40 years.

KHEAA is a public, non-profit agency established in 1966 to improve students' access to college. It provides information about financial aid and financial literacy at no cost to students and parents.

The agency also helps colleges manage their student loan default rates and verify information submitted on the FAFSA. For more information about those services, visit www.kheaa.com.

In addition, KHEAA disburses private Advantage Education Loans on behalf of its sister agency, KHESLC. For more information, visit www.advantageeducationloan.com.

For more information about financial aid and college planning, visit www.alstudentaid.com.