

Saving for Retirement-CD

First Step Toward Saving for Retirement

When Tommy returned from Easter vacation he was a bit confused. His dad asked about what they did on vacation. When he said they talked about retirement, his dad was very surprised. "Retirement," his dad gasped, what did he tell you son?" Tommy explained that he was confused, but Grandpa said he could use simple math to help his dad plan for retirement. Tommy's dad knew he had some teaching to do with his son.



"There are many ways to save for retirement. Adults call this *investing* for retirement," his dad stated. We will start out with something easy. How about I explain about CDs. "I already know about CDs," Tommy laughed. "No son, not compact discs, a **Certificate of Deposit**," Dad said. His dad explained that a CD is much like a savings account. The bank makes you put a minimum amount of money into an account for a given number of months. His dad also said it was just like a *compound interest* math problem. The principal gets interest compounded every year just like a regular savings account. However, you have to leave the money in the account for a given amount of time but the money is guaranteed to earn a higher interest rate.

If you put \$1,000 in a CD (Certificate of Deposit) for 2 years, what will it be worth at the end of that period? How about at the end of 3 years, 4 years, or 5 years?

CD original deposit = \$1,000

Interest rate = 10%



Year 1: $\$1,000 \times .10$ (10%) = \$100 + \$1,000 = \$1,100 (end of first year)



Year 2: $\$1,100 \times .10$ (10%) = \$ _____ + \$1,100 = \$1,100 (end of second year)



Year 3: \$ _____ $\times .10$ (10%) = \$ _____ + \$1,100 = \$ _____ (end of third year)



Year 4: \$ _____ $\times .10$ (10%) = \$ _____ + \$ _____ = \$ _____ (end of fourth year)



Year 5: \$ _____ $\times .10$ (10%) = \$ _____ + \$ _____ = \$ _____ (end of fifth year)



Use the interactive calculator to figure out the return on a CD!