The Ukrainian National Association Forum

Insurance MATTERS...

by Irene Jarosewich

Compound your way to financial security

With the popularity of growth stocks during the past several decades, the old-fashioned phrase "miracle of compound interest" has been heard less often. However, before easy access to growth stocks through online investing, as well as the proliferation of 401(k) retirement plans that invest primarily in equities, compound interest was a common path to financial security.

Simply put, compound interest, often just called compounding, is when interest (let's say, 5 percent annually) is added to the principal (for example, $1,000), and from that moment on, the added interest also earns interest. At the end of Year 1, a $1,000 investment would have earned $50; at end of Year 10, the gain is $628.89, not simply $500 (10 x $50). The additional $128.89 is the gain of interest earning interest.

The results are determined by time, not just by the amount you invest. The benefit of compounding is no stressful nights as you worry about stock market fluctuations; with compounding you never lose your principal and, for your money to grow, all you have to do is wait.

Since the factor of time is critical for compounding to work in your favor, money saved early and held for a longer period will earn more. The shorthand "Rule of 72" is an easy way to estimate the time it will take for money to double with annual compounding: simply divide 72 by the percentage of interest. For example, at 6 percent annually $10,000 invested will double to $20,000 in 12 years (72/6 = 12).

A popular choice at the UNA is for grandparents to purchase an endowment policy for a grandchild when the child is born. Often this is done with the idea that when the child turns 18, the endowment can be cashed in to help pay for college. However, instead of paying for college, the policy could be reinvested in another UNA policy earning compound interest.

Let's say that over the course of 18 years, making annual payments Babtsia and Dido provided Tarasyk with an endowment policy valued at $10,000. At age 18, the $10,000 could be withdrawn immediately to help Tarasyk pay for school. However, if this money was not needed to pay for college, the $10,000 could be used to invest in a new UNA policy, such as an annuity or single-premium life insurance. With this type of purchase, Babtsia and Dido will be helping Tarasyk farther along in his life. Through the compounding of interest, the value of the annuity and life insurance would grow tax-free, for many more years.

Although buying life insurance, or a typical retirement product such as an annuity, may seem odd for a college-age student, financially, this decision is a smart move. Over the course of his lifetime, Tarasyk will receive great value from such a decision.

Due to his age, Tarasyk will be able to purchase life insurance at lower rates than when he is older. Since time is an essential component to achieve the full effect of compound interest, by converting the endowment policy into an annuity when he is young, Tarasyk will have the benefit of many years of compounding. And, Babtsia and Dido's gift will serve him long into the future.

With more than a century of service as a fraternal benefit society, the UNA continues to live by its motto: The UNA and the Community: Partners for Life. To find out more about how UNA products can help you compound your way to financial security, contact the UNA Home Office at 1-800-253-9862 or the UNA sales staff directly at 1-888-538-2833, or find your local UNA branch secretary through the UNA website at www.ukrainiannationalassociation.org.

Compound your interest at the UNA
Initial principal of $1,000

At year's end	Principal $	Interest %	Compounded Interest, $
1	1,050.00	5.00	50.00
2	1,102.50	5.00	52.50
3	1,157.63	5.00	55.13
4	1,215.51	5.00	57.88
5	1,276.29	5.00	60.78
6	1,340.10	5.00	63.81
7	1,407.11	5.00	67.01
8	1,477.47	5.00	70.36
9	1,551.34	5.00	73.87
10	1,628.91	5.00	77.57