

# THE RULE OF 72

How to calculate the future growth of your investment

## What is the rule of 72?

A formula used to determine the number of years it will take for a debt or investment to double in value:

72 divided by the interest percentage = years to double the money

$72 \div \text{rate of return} = \text{years to DOUBLE your money}$

Example: \$1000,000 premium starting at age 35, at 5% annual interest rate, 28% tax bracket

Taxable		Tax-deferred	
<b>\$100,000 premium at 28% tax rate</b> 28% tax on 5% = 3.6% net return		<b>\$100,000 premium at 0% tax rate</b> 0% tax on 5% = 5% net return	
72 ÷ 3.6% = 20 years to double		72 ÷ 5 = 14 years to double	
Account Value	At age	Account Value	At age
\$100,000	35	\$100,000	35
\$200,000	55	\$200,000	49
<b>\$400,000</b>	<b>75</b>	\$400,000	63
		<b>\$800,000</b>	<b>77</b>

When you are ready to take a payout, at least two different options may be available.

**Take interest income:** The interest is considered taxable gain and will be taxed according to your tax bracket.

Interest income from \$400,000		Interest income from \$800,000	
\$20,000	annual interest payment	\$40,000	annual interest payment
\$20,000	taxable gain	\$40,000	taxable gain
<u>(\$5,600)</u>	taxes at 28%	<u>(\$11,200)</u>	taxes at 28%
\$14,400	after-tax annual income	\$28,800	after-tax annual income

**Take a lump-sum payout**  
**\$400,000** after tax (28% tax bracket)

**Take a lump-sum payout**  
**\$604,000** after tax (28% tax bracket)

*Hypothetical example assumes a constant 5% rate of return, which is not guaranteed and is not intended to represent the actual projected future interest rate, and it assumes all money is non-qualified.*



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