Taking Stock: Rule of 80, Rule of 72 both add up

by Malcolm_Berko

Dear Mr. Berko: Can you please explain the difference between the Rule of 80 and the Rule of 72? Is one of them better than the other in figuring out how much money I would have at retirement? Numbers are very confusing to me and I would be very happy if you could explain how the rules work and tell me in simple language. My broker is out of the office to have a special surgery and then he has to study for the continuing educations tests for the New York Stock Exchange and his Florida State Insurance license and is too busy to explain the rules.

E.S.

Lady Lake, Fla.

Dear E.S.: If your broker has to study for those ridiculously silly regulatory tests, he must be industrial-strength dumb. I've never known a single person to fail a continuing education test in 20 years. Those exams have zero educational value; however, the lucky owners whose testing firms appointed to administer these inane exams earn millions of dollars annually from this cockamamie boondoggle. I've taken those exams, so tell your broker that even Laurel and Hardy could get a passing grade even if they don't know how to read. And tell that broker to ask his office manager how he can avoid taking the exam. The office manager will know what to do. What an absurd excuse to avoid answering two simple questions. (Unless the special surgery involves his tongue.)

The Rule of 80 is a simple math formula that defines the earliest age at which you can retire and receive 100 percent of your pension benefits from the local area government employees retirement system. In most work venues if you hang up your boots prior to age 66 (today) you will receive a reduced payout (which can be as low as 40 percent) even if you've been employed for 20 or 30 years. The Rule of 80 is an attempt to bring fairness into the system. Here's how it works.

It's 1978; Velveeta Jackson is 20 when she begins working as a telephone lineperson for the City of Deaf Smith, Texas. Velveeta is covered by the city's pension plan. Now it's 30 years later and Velveeta, at age 50, is still a telephone lineperson and is covered by the Deaf Smith City Pension Plan. Because Velveeta is 50 and because she worked 30 years and because the sum of her age and years worked equal 80, the Rule of 80 allows her to receive 100 percent of the pension benefits she would normally receive at the normal retirement age of 66.

Without the Rule of 80 the reduction in benefits is one-half of 1 percent per month (6 percent yearly) for each month the member retires before the age of 66.

The Rule of 72 is simple as Simon, Sam and Saul. The Rule of 72 tells you how long (in years) it takes $100 to double at a specific rate of interest. Example: if you have $100 invested at 6 percent it will grow into $200 in 12 years. The resulting answer is determined by dividing the interest rate (6 percent) into 72. If you have $100 earning 8 percent that money will double in 9 years because 8 percent divided into 72 is 9. If you have money earning 12 percent that money doubles in 6 years. If you have $100 earning 10 percent, then that money will be worth $200 in 7.2 years. If that money continues to earn 10 percent, it would grow to $400 in 14.4 years, $800 in 21.6 years, $1,600 in 28.8 years and $3,200 in 36 years. And in 101.4 years at 10 percent that $100 would grow to $1,622,200. What an easy way to make your grandchildren multimillionaires.

But if you started with $5,000 at 10 percent it would grow to $1.28 million in 59 years, just enough to make your children happy consumers.

Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@comcast.net.

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