
Student Activity 2.3

Don't Let Your Fortune Go Up in Smoke

Video Summary

Video 2, “Take Care of Yourself: Sound Health Decisions Make You Healthier and Wealthier,” stresses the important relationship between making good decisions about health and increasing one’s wealth over a lifetime. It often costs a lot to do things that harm your health. Smoking, using illegal drugs, eating too much and exercising too little all represent decisions that harm your physical health. The same decisions also harm your financial health. Smoking is an example. The money saved by not smoking can, over time, yield substantial savings. That is because the money saved can grow and grow, thanks to compound interest. Over several years, small savings can grow, by compounding, into real wealth. Starting to save early is the key.

Caution: Smoking Is Bad for Your Financial Health

Not smoking certainly makes good health sense. The U.S Food and Drug Administration estimates that smoking kills 440,000 Americans every year. In 1964, a report by the U.S. Surgeon General declared that smoking is a definite cause of cancers of the lung and voice box, and of chronic bronchitis. Later reports declared that smoking also causes cancers of the bladder, esophagus, mouth and throat. Other illnesses such as cardiovascular diseases, kidney cancer and periodontitis have also been linked to smoking. On average, smoking reduces the lives of male smokers by 13.2 years and the lives of female smokers by 14.5 years.

Not smoking also makes good economic sense. The U.S Food and Drug Administration estimates that the economic toll of smoking exceeds \$157 billion each year in the United States: \$75 billion in direct medical costs and \$82 billion in lost productivity.

But it isn’t merely society in general that benefits when people don’t smoke. Not smoking also makes good financial sense for individuals. For an individual, money saved by not smoking can grow into real wealth. Here is an example. Jay is 18 years old. He is thinking about beginning to smoke. Assume that a pack of cigarettes costs \$5 and that Jay would smoke one pack of cigarettes a day. Then think about what would happen if Jay decided not to smoke and deposited the money he would have spent on cigarettes into an account that earns interest at a rate of 7 percent annually. Examine Figure 1. It provides a summary of the results of Jay’s decision—if he decides not to smoke.

Figure 1 shows clearly that even small amounts of money saved over time can add up to real wealth. Many individuals regard themselves as unlikely candidates for financial success, chiefly because they begin their first jobs with low starting salaries. But even people of modest means can build wealth over time if they follow certain simple strategies. One strategy is to start saving early so that the miracle of compound interest can work for you over time.

Figure 1: Jay's Savings from Not Smoking

Age	Beginning Balance	Non-Smoking Savings	Annual Return	Ending Balance
18	\$ 0.00	\$ 1,825.00	7.00%	\$ 1,952.75
19	1,952.75	1,825.00	7.00%	4,042.19
20	4,042.19	1,825.00	7.00%	6,277.90
21	6,277.90	1,825.00	7.00%	8,670.10
22	8,670.10	1,825.00	7.00%	11,229.76
23	11,229.76	1,825.00	7.00%	13,968.59
24	13,968.59	1,825.00	7.00%	16,899.14
25	16,899.14	1,825.00	7.00%	20,034.83
26	20,034.83	1,825.00	7.00%	23,390.02
27	23,390.02	1,825.00	7.00%	26,980.07
28	26,980.07	1,825.00	7.00%	30,821.42
29	30,821.42	1,825.00	7.00%	34,931.67
30	34,931.67	1,825.00	7.00%	39,329.64
31	39,329.64	1,825.00	7.00%	44,035.47
32	44,035.47	1,825.00	7.00%	49,070.70
33	49,070.70	1,825.00	7.00%	54,458.40
34	54,458.40	1,825.00	7.00%	60,223.23
35	60,223.23	1,825.00	7.00%	66,391.61
36	66,391.61	1,825.00	7.00%	72,991.77
37	72,991.77	1,825.00	7.00%	80,053.95
38	80,053.95	1,825.00	7.00%	87,610.47
39	87,610.47	1,825.00	7.00%	95,695.96
40	95,695.96	1,825.00	7.00%	104,347.42
41	104,347.42	1,825.00	7.00%	113,604.49
42	113,604.49	1,825.00	7.00%	123,509.56
43	123,509.56	1,825.00	7.00%	134,107.98
44	134,107.98	1,825.00	7.00%	145,448.29
45	145,448.29	1,825.00	7.00%	157,582.42
46	157,582.42	1,825.00	7.00%	170,565.94
47	170,565.94	1,825.00	7.00%	184,458.30
48	184,458.30	1,825.00	7.00%	199,323.13
49	199,323.13	1,825.00	7.00%	215,228.50
50	215,228.50	1,825.00	7.00%	232,247.25
51	232,247.25	1,825.00	7.00%	250,457.30
52	250,457.30	1,825.00	7.00%	269,942.06
53	269,942.06	1,825.00	7.00%	290,790.76
54	290,790.76	1,825.00	7.00%	313,098.86
55	313,098.86	1,825.00	7.00%	336,968.53
56	336,968.53	1,825.00	7.00%	362,509.08
57	362,509.08	1,825.00	7.00%	389,837.46
58	389,837.46	1,825.00	7.00%	419,078.84
59	419,078.84	1,825.00	7.00%	450,367.11
60	450,367.11	1,825.00	7.00%	483,845.55
61	483,845.55	1,825.00	7.00%	519,667.49
62	519,667.49	1,825.00	7.00%	557,996.97
63	557,996.97	1,825.00	7.00%	599,009.50
64	599,009.50	1,825.00	7.00%	642,892.92
65	642,892.92	1,825.00	7.00%	689,848.17