# What Is the Present Value Formula?

## Future Value vs Present Value Explained for Attorneys

### What Is the Difference Between Future Value vs Present Value?

Understanding **future value vs present value** is critical when evaluating settlements, structured payments, annuities, trust distributions, and long-term financial awards.

**Present value (PV)** calculates what a future amount of money is worth today, after adjusting for interest and inflation.
**Future value (FV)** calculates how much a current amount of money will grow over time at a given interest rate.

In simple terms:

- Present value tells you what tomorrow's money is worth today.
- Future value tells you what today's money will be worth tomorrow.

These financial concepts are especially important in legal practice areas such as:

- Estate planning
- Divorce and asset division
- Personal injury and wrongful death
- Business valuation
- Structured settlements

When attorneys understand how to apply the present value formula and compare future value vs present value, they can better evaluate financial

outcomes and advocate for their clients.

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## Why Present Value Matters in Legal Settlements

Imagine your client receives two settlement options:

- $100,000 lump sum paid today
- $150,000 structured settlement paid over 10 years

At first glance, $150,000 appears to be the better offer. But once you calculate the **present value**, the numbers may tell a different story.

This is why knowing **what the present value formula is** and how to use it is so important. Without it, financial comparisons can be misleading.

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## What Is the Present Value Formula?

The **present value formula** is:

**PV = FV / (1 + r)^n**

Where:

- **PV** = Present Value

- **FV** = Future Value
- **r** = Interest rate (as a decimal)
- **n** = Number of time periods

### How the Present Value Formula Works

1. Add 1 to the interest rate.
2. Raise the result to the power of the number of periods.
3. Divide the future amount by that number.

This calculation discounts future money back to today's dollars.

### Why Interest Rate Assumptions Matter

The assumed interest rate directly impacts the result:

- Higher interest rates lead to lower present values.
- Lower interest rates increase present value.

In divorce cases, estate distributions, or business valuations, even small changes in projected interest rates can significantly affect asset division.

## Example: Present Value Calculation

Your client is offered:

- $100 today
- $150 in 10 years
- 5% annual interest rate

Using the present value formula:

PV = 150 / (1.05)^10
PV = 150 / 1.6289
PV ≈ $92.09

That means $150 received in 10 years is worth only **$92.09 today**.

Scaled up:

- $150,000 paid in 10 years

- Present value ≈ $92,080

In this scenario, the $100,000 lump sum today is financially stronger than the $150,000 structured payout.

This example clearly illustrates the difference between **future value vs present value** in real-world legal decision making.

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## How to Calculate Future Value

While the present value formula discounts money back to today, the future value formula projects money forward.

### Future Value Formula

**FV = PV × (1 + r)^n**

Where:

- **FV** = Future Value
- **PV** = Present Value
- **r** = Interest rate
- **n** = Number of periods

### How It Works

1. Add 1 to the interest rate.
2. Raise it to the power of the number of periods.
3. Multiply by the present value.

### Example: Future Value Calculation

If you deposit $10,000 into a trust account earning 5% annually for 10 years:

FV = 10,000 × (1.05)^10
FV ≈ 10,000 × 1.6289
FV ≈ $16,289

This demonstrates how a present amount grows over time.

## Future Value vs Present Value: Key Differences

Understanding **future value vs present value** allows attorneys to:

- Compare lump sum vs structured settlements
- Evaluate pensions and retirement accounts
- Analyze long-term damages awards
- Assess annuities and trust distributions
- Determine equitable asset division

## Why This Matters for Law Firms

If payment for legal services is delayed for years, its value declines. Meanwhile, your firm continues covering hard costs and soft costs. The same financial logic applies to settlement evaluations.

Knowing **what the present value formula is** and how it compares to future value strengthens financial analysis and client advocacy.

## Final Thoughts

Understanding the difference between **future value vs present value** helps attorneys make informed financial evaluations across practice areas. By applying the present value formula correctly, you can assess structured payments, project asset growth, and guide clients through high-stakes financial decisions with clarity.

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