Value of Savings Lecture Notes

Americans are spenders. They have a hard time saving money for emergencies and to meet future financial goals. Saving is difficult for many people because it involves decreasing current consumption and investing in a future standard of living. Individuals incorrectly view savings as what is remaining after their current wants and needs have been satisfied. The future is an unknown risk for people, which is one of many reasons why they have such difficulty saving money. Without developing a savings and investing plan, individuals will not have the financial means to meet future financial goals such as purchasing a car, putting a down payment on a home, and meeting retirement needs.

First, it is important to understand the difference between savings and investing. **Savings** is the portions of current income not spend on consumption. **Savings accounts** provide and easily accessible place for people to store their money to meet daily living expenses and to have money for emergencies. Financial experts recommend individuals keep a minimum of three to six months of salary in a savings account. Savings accounts generally yield a lower interest rate than investments, but are more secure in that the saver will not lose their principal. The interest rate refers to the percentage rate paid on the money saved or invested.

Investing is the purchase assets with the goal of increasing future income. There are a large variety of investment opportunities that vary dramatically in the rates of return investors can receive. **Rate of return** refers to the annual return on an investment including appreciation and dividends or interest. A prerequisite to investing is to have a developed and implemented savings plan before a person begins investing.

Liquidity is how quickly and easily an asset can be converted into cash. If an individual were to have an emergency, cash needs to be easily accessible. Savings accounts are more liquid than investments because a person can easily get money out of a savings account in a few minutes, while it is harder to get money out of an investment because they are not easily accessible.

Many individuals need to change their consumption habits to begin saving and investing money. Saving money should be viewed as a fixed expense. A popular adage describing this is "**pay yourself first**, " which means to take out a portion of a paycheck for saving or investing before using any of the check for spending. Each time a person receives money, it should be divided by the **70-20-10 rule**. This implies to spend 70% of the money, save 20% of the money, and invest 10% of the money. An individual who follows this advice is well on his/her way to financial success. The 70-20-10 rule is ideal. However, it may be unrealistic for some individuals. A person's values or philanthropic gestures may prevent them form saving and investing 30% of their income. In such an instance, it is acceptable to save less as long as one has initiated a savings and investing plan they adhere to allowing them to continually save a fixed amount. A savings plan is a strategy for putting a portion of money from current income aside, which will not be spend on consumption, to reach a specified goal.

As we begin to look at savings versus investing, begin brainstorming answers to the following questions:

Why don't people save?
Why should we save?

What are some ways you personally save?

As we analyze the question "Why don't people save?" there are a couple reasons. Current statistics say that the Average American saves less than 5% of their paycheck, at one point in time, Americans were saving -1% which means they were even spending more than what they were making. The following are a list of reasons why people do not save:

-we want more
- no future goals
- money doesn't earn a lot of interest
- credit is easily available
- adequate job security

Brainstorm with students future financial goals they may have. These goals may include going to college, purchasing a vehicle, purchasing an electronic gadget, etc. Discuss with the students how they plan on achieving these goals. Realize that the goals cannot be achieved without developing a financial plan that involves savings.

Discuss why they think Americans do not save, Why Americans should save, and Ways to save. (Overhead)

Explain to students they will be learning about saving including:

a. What it is;
b. The concept of Pay Yourself First (PYF)
c. The 70-20-10 Rule
d. The different types of accounts to use inorder to save; Savings accounts, passbook accounts, statement accounts, money-market deposit accounts, and certificates of deposit What personal identification information thieves steal;

Value of Savings Lecture & Transparencies.

1. When budgeting money, it is important to set aside money for savings and or investing. When setting money aside for saving and investing, some questions to consider are:
   A. Are you saving money for something you want or need?
   B. Describe how you are managing to save money.
   C. Why would you recommend opening a savings account to someone who doesn't have one yet?
   D. Even though the purpose of the account is to save money, why might it be necessary to withdraw money from a saving account?
   E. If you open a savings account, and start making deposits and withdrawals, who is responsible for keeping track of the account?
2. As we begin to introduce the concept of savings we need to understand first why don't people save, second why should we save, and finally how do we save.
   A. **Why don't people save?**
      - Average American saves less than 5% of their paycheck.
      - We want more
      - No future goals
      - Money doesn't earn a lot of interest
      - Credit is easily available
      - Adequate job security
   B. **Why should we save?**
      - –Emergencies–recommended to have 3-6 months of salary

- Expenses

- Future Purchases
- Investing
- Security
- To reach financial goals
- To have the option of taking advantage of unforeseen opportunities

C. **What are some ways you save money?**

- Jar-every time you get a raise put that money in savings
- Have a purpose
- Go without (opportunity cost)

3. As you start to earn money you need to PAY YOURSELF FIRST!

A. Many people ask why, one should set aside money, the answer is to make a habit of saving money so that you can reach your financial goals. What does it take to PAY YOURSELF FIRST?

B. It takes:

1- Commitment
2- Discipline
3- Delayed gratification

C. Some ways to do start PAYING YOURSELF FIRST are:

1- From each paycheck or allowance, deposit a set amount or percentage into your savings account before spending money or anything else.
2- At the end of the day, put all your change in a savings container. Once a month deposit the money in a savings account.
3- Whenever you get unexpected money, put a portion of it into savings.

D. Remember

1- Amount saved isn't as important as getting into the habit.

4. There a number of ways of saving money so that you can reach your financial goal, they include:

Savings accounts, passbook accounts, statement accounts, money-market deposit accounts, and certificates of deposit.

Savings Accounts

1. Simplest way to earn interest on small amount of money for future expenses, while keeping money readily accessible and earning interest on your money.

Choosing A Savings Account

1- Factors to consider
- Interest Rate
- Fees - charges - and penalties
- Minimum Balance requirement
- Balance calculation method

2- Individual factors to consider
- Your own income
- Your budget
- Reasons for saving

2. Opening A Savings Account

A. You must be at least 18, or a parent or adult guardian must accompany the student, who can be a co-signer, meaning, the adult guarding is willing to share responsibility for the account
B. Know your Social Security Number
C. Two forms of ID
D. Have money to Deposit
E. Using ATMs to Make Savings Deposits and Withdrawals

3. ATM cards are issued by your financial institution and allow you to

4. deposit and withdraw money in/from your savings account by using a deposit envelop, located next to the ATM machine or withdrawal transaction

5. ATM machines are open 24 hours a day
6. ATM deposits and be in any amount
7. ATM withdrawals must be in increments of $20
    i. Allows you to choose a personal Identification number (PIN) to access your account information
8. After all transactions you will need to enter the savings information in a savings account register. The savings register keeps track of the date of all transactions, deposits or withdrawals, and the running balance (current balance/amount of money) in your account.

Passbook
1. Depositor receives a booklet in which deposits, withdrawals, and interest are recorded.
2. Average interest rate is lower at banks and savings and loans than at credit unions.
3. Funds are easily accessible.

Statement accounts
1. Basically the same as a passbook account, except depositor receives monthly statements instead of a passbook.
2. Accounts are usually accessible through 24-hour automated teller machines (ATMs).
3. Interest rates are the same as passbook account.
4. Funds are easily accessible.

Interest – Earning Checking Account
1. Combines benefits of checking and savings.
2. Depositor earns interest on any unused money in his/her account.

Money-Market Deposit Account
1. Acts like a checking account that pays interest
2. Checking/savings account.
3. Interest rate paid built on a complex structure that varies with size of balance and current level of market interest rtes.
4. Can access your money from an ATM, a teller, or by writing up to three checks a month

Benefits
- Higher interest rates than regular savings accounts.
- Immediate access to your money.

Trade - offs
- Limited number of withdrawals each month.
- Limited number of checks can be written each month.
- Average yield (rte of return) higher than regular savings accounts.

Certificates of Deposit
1. What they are and how they work – require you to keep your money in account for fixed period of time, five or more year. The longer the term, the larger the deposit, the higher the interest
2. Bank pays a fixed amount of interest for a fixed amount of money during a fixed amount of time.

Benefits
- Higher interest rate than regular savings account.
- No Risk.
- Simple.
- No fees.

Trade - offs
- Withdrawal penalty if cashed before expiration date.
- Restricted access to your money.

Source: UEN Lesson Plans on savings