Saving for the Future

Dollars and Sense
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**Presentation Notes**

**Saving for the Future**

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Why is it important to save money? When should you start planning for the future?
Financial Plan

Without a financial plan, long-term goals may never be affordable. A financial plan should reflect personal and family goals.

Do you agree or disagree with this statement? Why or why not?
A Financial Plan Considers…

What you have
Take a personal inventory of financial resources

What you need and want
Identify your personal and family goals

What is an inventory? An inventory of financial resources can include:

Assets
• Bank and credit union accounts and balances
• Investments accounts
• Retirement accounts
• Education accounts

Liabilities
• Mortgages and home equity loans
• Motor vehicle loans
• Personal loans
• Credit cards

Insurance
• Life insurance policies
• Medical insurance policies
• Motor vehicle insurance policies
• Homeowner insurance policies

What are your financial goals for the future? Are you trying to save money for a vehicle? College? Prom? Graduation expenses? What are your family goals for the future? Perhaps a new home, new vehicle, college for your children or for retirement.
A Financial Plan Considers…

How you can best use your financial resources to achieve your needs and wants

Develop plans to achieve and use available tools to manage:
✓ Spending
✓ Savings
✓ Borrowing
✓ Investing
✓ Protecting against financial crises

What are your spending habits?
Are you saving regularly, and is the amount you save growing every month?
Have you ever borrowed money? Did you pay it back? Have your friends ever borrowed money from you?
Why is investing a good financial resource to use?
How do you protect yourself and your family against financial crises?
How does lack of financial planning cause tension in the family?

How might the lack of financial planning influence the happiness in a family?

What are some emergencies that might occur in an individual’s life?

What is impulse buying? What motivates impulse buying? According to Mediascope, Inc., the statistics are interesting:
- The single most motivating factor for an impulse buy (88%) is a sale price
- Younger consumers with higher incomes have a greater percentage of impulse purchases
- 90% of people make occasional impulsive purchases
- Statistics state that 20% of what shoppers buy at the grocery store is bought on impulse
- A study in 2011 showed that 60% of females made an impulse buy within the last year

The study found that the average person spends $114,293 in their lifetime on impulse buys. That is a lot of money! Have you ever bought something on an impulse? Did you use it or wear it? If the answer is no, you just wasted your money.

Mediascope, Inc.
Impulse Buying
http://mediascopeinc.wordpress.com/2013/03/20/impulse-buying/
Weigh the Advantages of Planned Spending

Good financial planning creates:
- Peace of mind
- Family harmony
- Financial independence
- Satisfied desires – lasting enjoyment
- Saving for emergencies
- Attained long-range goals
- Planned spending patterns
- Living within income

Your financial plan is based on your income and expenses.

How does planned financial use of your money offer you peace of mind? It can give you a sense of accomplishment by reaching your long range goals. You will be able to look back and see the extraordinary and prevailing paybacks having a financial plan has brought to your life - and with that comes peace of mind.

How does a good financial plan bring harmony and financial independence to an individual or family?

What does it mean to “live within your means”? Why is this important?

Remember to set realistic goals for saving and planning for the future.

Based upon what you have learned so far in this lesson, how could individuals and families benefit from a budget or financial spending plan?

Why is it essential that an individual or family budget be simple, usable and realistic?
Saving Your Money

Where to Stash Your Money
(click on link)

There are many diverse selections when it comes to saving and investing your money. Understanding your options will help you make more knowledgeable choices. Study the two-page table to acquaint yourself with different savings and investing strategies.

If there were no safe place to deposit money, where would individuals, businesses and the government store their money? How would this impact the money supply and exchange of goods and services?

When you deposit money in a savings account, what benefit do you receive? What benefits do other consumers and businesses receive from your deposits?

Practical Money Skills for Life
To help consumers and students of all ages learn the essentials of personal finance, Visa has partnered with leading consumer advocates, educators and financial institutions to develop the Practical Money Skills program.

Savings Plan

Saving money should be a cornerstone of a financial plan, not the money left over after paying expenses.

The Compounding Calculator
(click on link)

A savings account is a bank account a depositor can use to keep his or her money safe, and it earns interest. Essentially, the financial institution pays rent to the depositor to use the depositor’s money to make loans to others, while still making it available to the depositor whenever he or she needs it.

According to The Mint, most savings accounts pay interest on the money in your account — and on any interest you’ve already earned. That’s called compounding. Compounding usually happens annually, but many savings accounts compound more often, such as four times a year. The more times your interest compounds, the faster your money will grow.

Use the compounding calculator to calculate different amounts of money you would like to save each year, varied interest rates and years you would like to save. Discuss the results with the students.

The Mint.org
About Savings Accounts and how to manage them.
http://www.themint.org/teens/about-savings-accounts.html
A good reason to save your money is the potential to see it grow and possibly double over time. The Rule of 72 is a great way to estimate how your investment will grow over time. If you know the interest rate, the Rule of 72 can tell you approximately how many years it will take for your investment to double in value. Simply divide the number 72 by your investment’s expected rate of return (interest rate). Assuming an expected rate of return of 9%, your investment will double in value about every 8 years (72 divided by 9 equals 8).
The Rule of 72 is a great way to estimate how your investment will grow over time.

This video is a bit elementary, but the visuals of the colored cubes should help visual learners understand the concept of the Rule of 72.

How to Teach the Rule of 72 to Children
Teaching Children about the Rule of 72
http://youtu.be/ShwCeTeKWOI
Rule of 72 Scenario

You are an 18-year-old and have been working evenings and weekends at a local restaurant for two years. You have managed to save $4000.00 of your salary and tips. How long will it take to double your money with an expected rate of return of 6%?

Allow the students time to calculate the answer. Refer to slide 11 for reinforcement of the concept.

Answer: Simply divide the number 72 by the investment’s expected rate of return of 6%. The investment will double in value approximately every 12 years (72 divided by 6 equals 12). By the time this student is 30 years old, the investment will have doubled to $8000.00.

How much will the investment be by the time the student is 42? 54? 66?
42-years-old - $16,000.00
54-years-old - $32,000.00
66-years-old - $64,000.00
Saving allows a consumer to put aside money for immediate needs and build an emergency cushion. Investing is for long-term goals, such as educating children, wealth building and retirement. Another way of stating it is “delayed spending”. Saving and investing make sense because while a person waits to spend his or her money, more money can be earned through interest. Interest is defined as money paid regularly at a particular rate for the use of money lent, or for delaying the repayment of a debt. Financial institutions pay the depositor to “borrow” his or her money.

Interest makes saving and investing profitable. How is this possible?
What are your short-term financial goals?
What are your long-term financial goals?

It is much easier to save with a goal in mind. Ask different students what their short-term and long-term goals are and use the saving calculator to calculate how much they will need to save each month if they want to achieve their financial goals next year.

Allow for questions and discussion.

The Mint.org
Use this calculator to create a savings plan to get you to your goal.
http://www.themint.org/teens/saving-calculator.html
Savings institutions, which have long been available to consumers, include commercial banks, mutual savings banks, savings and loan institutions and credit unions. When shopping for a place to deposit savings, factors such as the following should be considered:

- The interest rate paid – The higher the rate of interest, the faster savings grow.
- The method used to calculate interest – For example, is interest calculated on the average daily balance or the lowest balance during the period?
- How often interest is compounded (interest earned is added to the total and new interest calculated) – The more frequently savings are compounded, the faster they grow.
- Policies and requirements of the institution – Is there a minimum balance which must be maintained? What charges are assessed for account services?
- Liquidity or ease of converting savings into immediate cash – Can money be withdrawn at any time? Is there a penalty for withdrawal under certain conditions?
- Safety of the funds – To protect savings, the account should be insured, preferably by a federal agency, such as Federal Deposit Insurance Corporation (FDIC). Each depositor is insured for at least $250,000 per insured bank. Saving money in FDIC insured financial institutions is very safe because the accounts are insured by the federal government. Not all savings/investing methods are equally safe. You probably noticed from the calculators that different financial instruments pay different interest rates. The higher the interest the depositor or investor makes, the more risky the investment is. Over time, the risk evens out. FDIC insured savings accounts are good for short-term savings because there is little risk. With time, more risk is acceptable.
Ask the students what comes to mind when they hear the term retirement. Responses will likely vary from positive to negative images. Point out that retirement is a period that can easily span 15-25 years or more (longer than students have lived). It is a period when retirees face many changes – both challenges and opportunities. Most retirees no longer bring home wage and salary income, so their comfort during retirement will depend upon how effectively they have planned ahead.

What are some things you would like to see happen during retirement years for yourself or your family?
How will you have the money to achieve those goals?
What income sources do you expect to have in retirement?
Why is it necessary to plan ahead for retirement?
What worries would you have if you had not made any advance plans for retirement?
Retirement planning has been likened to a three-legged stool. The three legs are:

- Social Security retirement benefits (if eligible)
- Your employer pension
- Your own savings and investment earnings

Lead a discussion based on the statement, “If all three legs are sound, the stool will be secure; if one or more legs is weak or missing, the other legs will have to be stronger.”

An employer pension may offer vested benefits. It is those benefits that the individual has earned a right to receive and that cannot be forfeited.

Have students read references to learn more about Social Security benefits (for example who accrues Social Security benefits, what determines the amount of benefits received and who receives benefits and when). Point out the importance of periodically checking your personal earnings and estimated benefits. **Note:** Personal Earnings and Benefit Estimate Statements can be obtained at: [http://www.ssa.gov/](http://www.ssa.gov/)
Questions?
References and Resources

Images:
Microsoft Clip Art: Used with permission from Microsoft.

Textbook:

Websites:
Learnfree.org
Managing a Savings Account
http://www.dol.gov/esa/benefits/savingsaccount.html

MyMoney.gov
This is the U.S. government’s website dedicated to teaching all Americans the basics about financial education.
http://www.mymoney.gov/Pages/default.aspx

Northwestern Mutual
Interactive Calculators
http://www.northernmutual.com/learning-center/calculators/

Practical Money Skills for Life
To help consumers and students of all ages learn the essentials of personal finance, Visa has partnered with leading consumer advocates, educators, and financial institutions to develop the Practical Money Skills program.
https://www.practicalmoneyskills.com/educators/lesson_plans/lev9-1283
References and Resources

Websites:
- TheMint.org
  - About Savings Accounts and how to manage them.
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    http://www.themint.org/teens/power-of-72.html
  - Tips to Help You Save Money

YouTube™:
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