Chapter 8
savings

Plan for Financial Security

Introduction To Saving

Section 8.1
Why Save?

- Saving – you trade spending now for the ability to spend in the future

- **Reasons to Save**

1) The unexpected
   - accidents
   - things lost or broken
   - Loss of job
   - you will still need to pay fixed expenses
2) Opportunities
   - unexpected good deals that may come along
3) Major purchases
   - over time and with interest, you will be able to afford expensive items you want.

Why Save?
Section 8.1

4) Flexibility
   - quit a job for better prospects
   - afford something until more money comes along
5) Achieve your goals
   - long-terms goals usually involve large amounts of money
   - saving is easier if it is important to you
   - break it down into smaller, more manageable steps

Why Save? Section 8.1

- **<u>Saving Strategies</u>**

1) Save by the numbers
   - save a certain percentage if you don't get the same pay every paycheck
2) Pay yourself first
   - deposit money into your account like you are paying a bill every month or paycheck
3) Payroll deductions
   - deposit money automatically from your paycheck
   - your employer can set it up with your bank

Why Save?
Section 8.1

4)) Checking account transfer

- authorize your bank to transfer an amount each month to your savings
- be sure to record these transactions in your check register.

5) Reward yourself

- each time you make a deposit, give yourself an inexpensive reward

6) Saving and self-control

- stick to your savings plan
- decide not to buy something now in order to get something later that you value more

Section 8.2
Savings Institutions and Accounts

- **4 Basic Businesses for Depositing your Savings**

1) Commercial Banks – a financial institution that serves individuals and businesses with a wide variety of accounts, loans, and other financial services.
   - The largest savings institutions in the U.S.
   - Main source of loans for businesses

2) Savings Banks – financial institutions owned by their depositors.
   - Instead of paying interest, the pay dividends
   - Dividends – a share of the company's profits

Section 8.2
Savings Institutions and Accounts

3) Savings and Loan Associations – financial institutions that specialize in lending money to consumers to buy homes

4) Credit Unions – financial institutions that offer memberships to people who share a common bond (church, company, profession, or labor union)
   - Do not operate for profit
   - When you deposit, you become a member and owner
   - Provide saving and lending to their members
   - Generally pay higher interest rates than others
   - Charge lower rates to borrowers
   - Not all consumers can join
   - Do not make business loans

Section 8.2
Savings Institutions and Accounts

<u>Deposit Insurance - </u> $250,000 or less with the following:

- FDIC – Federal Deposit Insurance Corporation
  - Commercial and Savings Banks
- SAIF – Saving Association Insurance Fund
  - Savings and Loans
- NCUA – National Credit Union Association
  - Credit Unions

Section 8.2
Savings Institutions and Accounts

- Savings Accounts – accounts offered by any savings institution in which you can deposit money, earn interest on your deposits, and withdraw your money at any time.

- Interest Rates –
  - The more money you have on deposit, the more interest you will earn
  - The higher minimum deposit required, the higher the interest rate.

- Fees and Restrictions – some accounts charge a fee for withdrawing money from a teller rather than an ATM

Section 8.3
Save with Safety

Saving Options

- Certificate of Deposit (CD)- a deposit in a savings institution that earns a fixed interest rate for a specified period of time (ranging from a few months to several years) During this specified time you may not withdraw your money without paying a substantial penalty.
  - Interest Rate – offers higher interest rate than on regular savings. The interest rate is fixed. This is good if regular interest rates go down, but bad if regular interest rates go up.
  - Minimum Deposit – require a minimum deposit. May be $500 to several thousand dollars. The larger the minimum, the higher the interest rate
  - Penalty of Early Withdraw – a high penalty is charged – often 3 months interest
  - Safety - insured by FDIC or NCUA

Section 8.3
Save with Safety

Money Market Account – a deposit for which the interest rate changes over time (flexible or variable).

- Interest Rate - higher interest rate than on regular savings but lower than CDs. There are options of different interest rates based on the amount you deposit
- Minimum Deposit – require a minimum deposit. For higher interest rates, you will have a higher minimum deposit required.
- Flexibility – can withdraw your money at any time without a penalty
- Safety - insured by FDIC or NCUA - the only risk is that interest rates may go down, you would earn less

Section 8.3
Save with Safety

- **Government Bonds**
- The government gets money it spends from taxes and borrowing.
  - Government bonds are one of the safest investments you can make.
  - Have tax advantages (don't have to pay state or local tax on interest of government bonds)
- **Bond** – a written promise to pay a debt by a specified date
  - Issued for a specified time or term (6 months to 30 years)
  - You can sell the bond at any time
  - Almost always safe. They are paid as long as the United States is a nation.

Section 8.3
Save with Safety

- Savings Bonds – U.S. government bonds issued for amounts of $50 to $10,000
  - Buy them at Commercial Banks, Savings and Loans, Credit Unions or Post Offices
  - Interest can be sent to your account every 6 months
  - Don’t pay tax on interest until you cash the bond

Section 8.4
Simple and Compound Interest

- Principal – the money you have on deposit in a savings account, CD, other savings option
  - Interest is calculated on the principal.
  - Any interest earned can be kept in the account to be added to your principal.
  - The result is your new principal for the next period.

Section 8.4
Simple and Compound Interest

- Simple Interest – interest paid one time a year at the end of the year on the average balance in a savings account.
  - The amount you earn on just the money you have. NOT on any previously earned interest.
- Compound Interest – interest paid on the principal and also on previously earned interest, assuming that the interest is left in the account.
  - Adds to your original deposit to create a NEW principal.

Section 8.4
Simple and Compound Interest

- Interest can be compounded:
  - Annually – every year
  - Semiannually – every 6 months
  - Quarterly – every 3 months
  - Monthly
  - Daily – 365 days a year