



TOPIC CONNECTIONS:

Connects with **Money Smart** curriculum in the classroom:

Lesson 3 (Financial Goals), Lesson 6 (The Importance of Saving), Lesson 7 (Savings Options), Lesson 8 (Investing Options), and Lesson 12 (Spend, Save, or Give?).

TOPIC OVERVIEW:

Approximately 56 percent of Americans do not have an emergency savings fund that could cover three months of unanticipated financial emergencies, according to the FINRA Foundation's *America's State-by-State Financial Capability Survey* (2012). An emergency savings fund is helpful to withstand a major reduction in income, such as from a job loss, or to pay for a major, unexpected home or car repair. And, the sooner you can start to save for long-term goals, the more you can take advantage of the compound growth that savings accounts offer. It can be difficult to stick to savings plans. But, like every other habit, saving money must be developed over time. Creating goals, understanding the difference between needs and wants, and knowing your savings options can help develop that habit. And, don't forget to "pay yourself first." Foster the habit of savings through conversations and activities about why we save and how to save.

FROM THE CLASSROOM:

How do you save money? There are several methods for saving money. One method is to change habits to free up more money to save. For example, instead of driving to every location, you could save money by walking occasionally. Another method is to cut back in areas where you may be overspending. One method is to go cheaper. Sometimes we spend money on things that are too expensive when the same product can be purchased for less money. Then, it is key to have a savings account where you can easily deposit savings. Financial institutions offer a variety of savings accounts. Savings accounts allow you to earn interest on your money while it remains in your account.

Why should I save money? Saving money allows you to achieve financial goals, comfortably spend on needs and wants, be able to pay for unexpected expenses, and earn interest.

What are the benefits of saving with a financial institution? Having a savings account at an FDIC-insured institution provides consumers with advantages such as FDIC deposit insurance and protections related to a variety of risks, including bank failure, theft, and fraud. Specifically, if you have less than \$250,000 in an FDIC-insured bank account, you can rest easy knowing that no depositor has lost a penny of insured funds since the FDIC's creation in 1933. Financial institution savings accounts also allow customers to earn interest on savings. Savings accounts can vary. Contact multiple institutions and look at the related fees, how much you need to open an account, and any penalties if the balance drops below a minimum. Ask a bank employee to give you the Truth in Savings disclosures, and use them to shop around as you make a decision.

Which financial goals are most important? Financial goals will vary from person to person and situation to situation. When developing financial goals, one thing a person should do is weigh his or her financial values. Financial values may vary when it comes to spending money, from education, to travel, to family, and more. People should also evaluate their needs and wants. It is important to meet needs before wants. Additionally, not all wants are equally valued. It's important to weigh the value of wants and prioritize the more important wants on that list.



How can you reach financial goals? There are several strategies to reach financial goals. Creating a budget, or spending plan, is a great way to set yourself on the course to attaining your goal. Evaluating your cash flow can also help you determine whether your goal is realistic or you need to revisit your budget. And, consider a combination of regular, automated deposits into a savings fund.

What is investing? To achieve long-term savings goals, including retirement savings, young adults may want to consider supplementing their insured deposits with low-fee, diversified mutual funds (a professionally managed mix of stocks, bonds, and so on) or similar investments that are not deposits and are not insured against loss by the FDIC. With nondeposit investments, you assume the risk of loss for the opportunity to have a higher rate of return over many years.

What are some investment vehicles? There are several investment vehicles, or ways to invest money. Savings Bonds are documents (generally issued electronically) representing a loan of more than one year to the U.S. government, to be repaid, with interest, on a specified date. You lend your money to the government and it guarantees your money back, plus some interest. A stock is an investment that represents shares of ownership in the business and earning of a company. It is an investment made in a business. When you buy a stock, you become a partial owner of the company and you may get a say in certain decisions about how the company is run. You can earn or lose money as the company does. Mutual funds are an investment tool that pools the money of many shareholders and invests it in a diversified portfolio of securities, such as stocks, bonds, and money market assets. When you invest in a mutual fund, you purchase a small piece of several stocks, bonds, or money market assets.

What does it mean to “pay yourself first”? Paying yourself first means that, when you earn money, you set some of it aside into investments or savings first (paying yourself), before you take care of monthly bills and other financial requirements. Many people follow this concept by automatically routing some of their paycheck into savings and investment accounts, like retirement funds.

WORDS TO KNOW:

Bank: A financial institution and business that accepts deposits, makes loans, and handles other financial transactions.

Budget: A plan that outlines what money you expect to earn or receive (your income) and how you will save it or spend it (your expenses) for a given period of time.

Financial Institution: A bank or credit union.

Interest: Money that a bank or other financial institution pays you for keeping money on deposit with them, or the amount of money you pay a bank as a fee when you borrow money.

Invest: To put money at risk with the goal of making a profit in the future.

Mutual Fund: An investment tool that pools the money of many investors and invests it in stocks, bonds, and money market assets, or other securities.

Return: Money made (profit) from an investment.



Risk: The possibility that something unplanned or unintended may happen (such as losing money). Uncertainty about outcomes that are not equally desirable. In finance, it refers to the degree of uncertainty about the rate of return and the potential harm that could arise when financial returns are not what the investor expected.

Risk Management: The process of calculating risk and choosing approaches to minimize or manage loss.

Save: Setting something, like money, aside to use in the future.

Savings Account: A bank account that you can use to set aside money, and that pays you interest.

Savings Bond: People lend money to the Government so it can pay its bills. Over time, the Government gives that money, plus a bit extra (interest), back to those people as payment for using the borrowed money.

Stock: An investment that represents a share of ownership in a company

CONVERSATION STARTERS...ASK YOUR TEEN:

- **If you received \$500, what would you do with it, and why?**
- **Why is saving money important?**
- **Do you ever save the money that you earn (from allowance, gifts, chores, or jobs)? How has your savings plan been going?**
- **What are you saving up to buy? Why? Do you have a plan for saving up to buy this item?**
- **What are your financial goals? What things are you doing to reach those goals?**
- **What are your thoughts about investing money? What are the benefits and risks of investing?**

TRY THIS AT HOME:

Start Saving Soon: If your child earns an allowance, receives a monetary gift, or earns money through a job, encourage your child to save money by separating it. Create envelopes for “Savings” and “Spending” and explain the importance of saving some of the money that he or she earns.

Focus on Financial Goals: Does your child want a new phone? New clothes? Extra spending money? Instead of giving a flat “Yes” or “No,” develop a financial goal together. Discuss your child’s earning (through gifts, jobs, and/or allowance) and create a plan for how he or she will need to manage money in order to save and reach the goal.

The Stock Market Game: Play the stock market game together. Pick a stock and pretend to invest some money. Track the stock over time to see whether your investment pays off.



TRY THIS AROUND TOWN:

Understanding the Options: Take your child with you the next time you visit a financial institution, or make a special trip if you don't normally go into a branch. Pick up some free informational materials on student/youth account options, including a student savings account.

Savings Shadow: Involve your child when you choose to save money. Deposit money at the bank together and walk your child through the process. Visit an ATM together as you make a deposit. As you deposit, explain why saving is important to you.

RESOURCES:

ARTICLES:

- *Set a Goal: What to Save For* by the Consumer Federation of America: Helpful advice for saving for a variety of things, like a car, a house, or retirement. <http://www.americasaves.org/for-savers/set-a-goal-what-to-save-for>
- *Make a Plan: How to Save Money* by the Consumer Federation of America: Suggestions for saving strategies and budgeting. <http://www.americasaves.org/for-savers/make-a-plan-how-to-save-money>
- *Teaching Kids About Money Management* by Parent Further: Advice about building saving and money management habits in kids. <http://www.parentfurther.com/parenting/money/teaching-kids-money-management>

ONLINE TOOLS:

- *Savings Tools and Resources* by the Consumer Federation of America: Online tools like wealth estimators and a savings checklist tool. <http://www.americasaves.org/for-savers/savings-tools-and-resources>
- *Building Your Future?* by The Mint: Online tool for how to financially prepare for the future. <http://www.themint.org/parents/financial-future-challenge.html>
- *Compound Interest Calculator* by the U.S. Securities and Exchange Commission: A tool to calculate how much your money can grow with compound interest. http://www.investor.gov/tools/calculators/compound-interest-calculator#.U_3hdLywJ78
- *Ballpark E\$timate* by the U.S. Securities and Exchange Commission: A calculator to determine how much you need to save to have a comfortable retirement. http://www.investor.gov/tools/calculators/ballpark-etimate#.U_3hmLywJ78

GAMES/APPS:

- *Test Your Money \$marts* by the U.S. Securities and Exchange Commission: An online quiz to test knowledge of saving and investing concepts. http://www.investor.gov/tools/quizzes/test-your-money-smarts#.U_3hz7ywJ78
- *Hit the Road: A Financial Adventure Game* by the National Credit Union Administration takes you on a virtual road trip across the country, but the journey is not an easy one. You must save and spend your money wisely to complete challenges along the way. <http://www.mycreditunion.gov/Pages/pocket-cents-game.aspx>