CHAPTER 8

SAVING

Plan for Financial Security

WHAT'S AHEAD

LESSON 8.1
Why Save?

GOALS

- ►Explain how you can benefit from saving regularly.
- ►Describe strategies you can use to meet your saving goals.

KEY TERM

- saving

Benefits of Saving

- Save for the unexpected
- Save for opportunities
- Save for major purchases
- Save for flexibility
- Save to achieve your goals

Saving Strategies

- Pay yourself first
- Save by the numbers
- Reward yourself
- Consider your values
- Enroll in automatic saving
  - Payroll deductions
  - Checking account transfers

Checkpoint 8.1

- What are five ways in which people may benefit from having saved?
- What saving strategies can help you save regularly?

Checkpoint 8.1 answers

- What are five ways in which people may benefit from having saved?

1. Being able to deal with unexpected costs
2. Taking advantage of opportunities
3. Being able to pay for major purchases
4. Having flexibility
5. Being better able to achieve life-span goals

Checkpoint 8.1 answers

- What saving strategies can help you save regularly?

- Paying yourself first
- Saving a fixed percentage of income
- Having funds withheld from your pay and deposited directly in a saving account

LESSON 8.2
Savings Institutions and Accounts

GOALS

- ►Describe differences among types of savings institutions.
- ►Identify factors to consider when selecting a savings account.

KEY TERMS

- commercial bank
- savings bank
- dividend
- savings and loan association
- credit union
- savings account

Savings Institutions

- Commercial banks
- Savings banks
- Savings and loan associations
- Credit unions

Deposit Insurance

- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Share Insurance Fund (NCUSIF)

Savings Accounts

- Interest rates
- Fees and restrictions

Checkpoint 8.2

- What are the four types of financial institutions that accept deposits from individuals?
- What should you consider in choosing a savings account?

CHECKPOINT 8.2 ANSWERS

- What are the four types of financial institutions that accept deposits from individuals?

1. Commercial banks
2. Savings banks
3. Savings and loan associations
4. Credit unions

Checkpoint 8.2 Answers

- What should you consider in choosing a savings account?

- Interest rate paid
- Bank location and hours of operation
- Fees and restrictions
- Deposit insurance

LESSON 8.3
Save with Safety

GOALS

- ►Describe the trade-offs of different saving options.
- ►Discuss government bonds and reasons for investing in them.

KEY TERMS

- certificate of deposit
- money market account
- annual percentage yield (APY)
- bond
- savings bond
- face value

Savings Options

- Certificate of deposit
- Money market account

Certificate of Deposit

- Interest rate
- Minimum deposit
- Penalty for early withdrawal
- Safety

Money Market Account

- Interest rate
- Minimum deposit
- Flexibility
- Safety

Annual Percentage Yield (APY)

- Truth in Savings Act
- Actual interest rate an account pays per year

Government Bonds

- Treasury securities
  - Treasury bills
  - Treasury notes
  - Treasury bonds
- Savings bonds
  - Series EE savings bonds
  - I savings bonds

Why Buy Government Bonds

- Tax advantages
- Safe investment

Checkpoint 8.3

- Why do you need to know the APY on the accounts you are considering?
- Why is buying a government bond the same as lending money to the government?

Checkpoint 8.3 Answers

- Why do you need to know the APY on the accounts you are considering?

- The APY tells you the actual rate of interest that the account pays per year.
- All banks must calculate and report this rate in the same way.

Checkpoint 8.3 ANSWERS

- Why is buying a government bond the same as lending money to the government?

- The U.S. government borrows money by selling bonds.
- A bond is a written promise to pay a debt by a specified date.

LESSON 8.4

Simple and Compound Interest

GOALS

- ►Describe how to calculate simple interest.
- ►Discuss the importance of compound interest to a successful savings plan.

KEY TERMS

- principal
- simple interest
- compound interest

Simple Interest

- Simple interest is interest paid once a year at the end of the year on the average balance in an account.

Compound Interest

- Compound interest is interest paid on the principal and on previously earned interest, assuming that the interest is left in the account.
- Interest can be compounded in several ways.
  - Annually: every year
  - Semiannually: every six months
  - Quarterly: every three months
  - Monthly
  - Daily

Compound Interest Table

Year	3%	6%	10%
1	1.030	1.062	1.105
2	1.062	1.127	1.221
3	1.094	1.197	1.350
4	1.127	1.271	1.492
5	1.162	1.350	1.649
6	1.197	1.433	1.822
7	1.234	1.522	2.014
8	1.271	1.616	2.225
9	1.310	1.716	2.459
10	1.350	1.822	2.718

The Rule of 72

- To find out how long it takes an investment to double, divide 72 by the annual rate of interest.
- Examples
  - 10 percent annual rate of return

    72 ÷ 10 = 7.2 years
  - 6 percent annual rate of return

    72 ÷ 6 = 12 years
  - 3 percent annual rate of return

    72 ÷ 3 = 24 years

Checkpoint 8.4

- What is simple interest?
- Why is the number of times a bank compounds your interest each year important?

CHECKPOINT 8.4 ANSWERS

- What is simple interest?

Simple interest is paid once a year at the end of the year on the average balance in an account.

CHECKPOINT 8.4 ANSWERS

- Why is the number of times a bank compounds your interest each year important?

- When a bank compounds interest, it adds the amount of interest earned to the principal and pays interest in the future on this amount.
- With compounding, interest is paid on a larger amount of principal for each subsequent period.