Standard 5: **The student will analyze the costs and benefits of saving and investing.**

Saving and Investing: Getting Started

Priority Academic Student Skills
Personal Financial Literacy

Objective 5.1: Explain reasons for saving and investing to meet goals and build wealth (e.g., opportunity cost, return on investment, emergencies, major purchases, down payments, and education).

Objective 5.2: Identify and compare the costs and benefits of various investment strategies (e.g., compound interest, tax implications, account liquidity, and investment diversification) and how inflation affects investment growth.

"But Mom, why can I not have it NOW?"

Micah heard those words every time he took his Mom and little brother to the store.

Micah's mom knew the value of saving for the future and had helped Micah understand, too. Besides, he thought, why keep asking if she only says I have to save my money for a car.

Micah's mom worked two jobs just to pay the bills. Even though money was scarce, she kept a small savings account just in case they had an emergency. And now, Micah had his own savings account.

Only two more months, and he could buy his own car. Then he would not have to drive his mom and little brother to the store, and he would not have to listen to his brother whine about what he could not have.

Lesson Objectives

⇒ Identify the reasons people save and invest.
⇒ Weigh the costs and benefits of saving and investing.
⇒ Explain the difference between saving and investing.

Personal Financial Literacy Vocabulary

Investing: Purchasing securities such as stocks, bonds, and mutual funds with the goal of increasing wealth over time, but with the risk of loss. Setting aside money for future income, benefit, or profit to meet long-term goals; using savings to earn a financial return.

Liquidity: The quality of an asset that permits it to be converted quickly into cash without loss of value. For example, a checking account is more liquid than real estate.

Opportunity Cost: The value of the second-best alternative that a person gives up when making one choice instead of another.

Risk: A measure of the likelihood of loss or profit on an investment's rate of return.

Saving: The process of setting income aside for future spending. Saving provides ready cash for emergencies and short-term goals, and funds for investing.

Savings: Money set aside for a future use that is held in easily accessed accounts, such as savings accounts and certificates of deposit (CDs).

Savings account: A financial institution deposit account that pays interest and allows withdrawals.

Introduction

Saving money sounds like a great idea, but sometimes it can be challenging to do. Saving is more than just spending less; it also involves deciding what to do with the extra money. While putting change in a jar is a good start, it is only the first step. Finding ways for money to earn additional money allows your savings to grow, and that helps people meet their personal and financial goals.

Lesson

People save money for many reasons. Basically, people save because they want something in the future. Maybe you are saving money to help pay your college tuition, to buy a car, or to get a new computer. Maybe you are saving to buy a special gift for someone or to go see a friend in another state. Adults save money for different reasons. Some are saving to purchase a house, some are saving for their retirement, and some might want to take an expensive vacation.

PRESENTATION

The multimedia slide presentation for this lesson outlines the content in this section. You may want to use it with your students, or print off the slides to use as lecture notes.

Savings is defined as keeping money for future use, or to redirect money from current spending to a savings account or another form of investment. Whether you have a part-time job or get a cash gift for your birthday, it is important to start saving now.

Saving money is always easier when you have a goal. If you know how much you need and how long it takes to get there, you are more likely to save. When you can save for things you want or need, you will not have to borrow money from someone else to buy it. Most people would agree it is better to pay <u>yourself</u> than pay someone else.

Saving money is simply making choices about how to use your money. It means you have decided to set money aside today for something you want tomorrow. In other words, you delay your spending for a future purchase. While it sounds easy, it can be difficult because it is certainly more fun to spend today than wait. A little practice and a commitment to your goals, however, will increase your ability to save.

It is also hard to save when you have made too many purchases on a credit card, leaving you with little or no money after paying your bills. If you find yourself in that situation, it is generally best to stop spending and pay off your credit cards as soon as possible. Then, you can establish a savings plan to meet your financial goals. If you have no debt, that is great because you can start saving <u>now</u> to reduce your need to borrow money for future purchases.

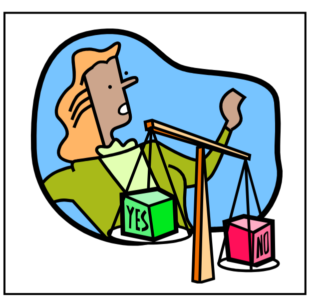
Think of some items you would like to have or something you need, then find out how much it will cost. List those items and the estimated cost in the box below.

What I want to buy:	Price:

Based on how much you earn or expected cash gifts you will receive, how long will it take you to save the money you need for one or more of these items?

Answer:

Deciding to Save



Making decisions about savings involves opportunity costs. In other words, what kind of opportunities would you give up today to fund your future goal? For example, if you could buy three bottles of pop or one pizza, the opportunity cost of the pizza is three bottles of pop. You can have the pop or you can have the pizza, but you cannot have both.

TEACHING TIP

Use this activity in class and have students brainstorm a list of savings ideas. The list will vary depending upon the age of your students and their experience with savings.

Some items in your future have a much higher opportunity cost than other items, but the expensive items are often highly valued. Graduating from college without large student loan debt will be valuable to you in your twenties and thirties. Putting more money down on the house you purchase may let you be out of debt before you retire.

If you decided to save money for one of your future items what kinds of things would you have to give up today? Use the table below to record your answers.

What I want to buy	Price	What I will give up

Do you think that saving money is worth giving up those items? Why or why not?

Answer:

Before you make your next purchase, take a minute to ask yourself: "Is this something I want more than reaching my personal or financial goals?"

Strategies for Saving

How do you start saving money? That is an important question to ask. Unless you take the first step, you will be like others who talk about the need to save but never seem to do it.

Once you decide to start saving, there are several things you can do. One of the best ways is to pay yourself first! Before spending money on anything else, put money in your savings account or your

TEACHING IDEA

For more information on **opportunity costs**, refer to the Introductory Lesson on economic reasoning.

piggy bank. Whenever you get any money—allowance, gifts, jobs, or anything—take out at least ten percent for savings immediately, before spending any of the money. Then you can spend the rest. If you would pay yourself just ten percent of all money you earn, you would be saving at a much faster rate than most people.

In the box below, list five ways that you can save money for you goals.

1.

2.

3.

4.

5.

Saving money can be done in two different ways. You can save your money by putting it in a safe place, like a bank, where it will earn a small amount of interest. Once you are living on your own, it is a good idea to have enough money to pay your bills for six months in a bank account. When you have an emergency, the money is available.

If you have more money and more time before you need it, you might also save money using government savings bonds, money market accounts, or certificates of deposit (CDs). Sometimes, these items pay more interest, but they are not as liquid.

Liquidity is defined as how easy it is to turn an item into cash without losing any money. For example, if you have a savings account, the money is easily available to you; it is very liquid. If you own a house, even if you can sell if for more than you paid for it, you might have to wait to find a buyer. Your home is not very liquid. Government bonds and CDs have a guaranteed return, but you have to hold them for specific periods of time. Therefore, they are not as liquid as savings accounts.

Five Easy Ways to Save Money

- Save your pay raises; do not spend them.
- Save your income tax refunds; do not spend them.
- Save your change in a jar, and deposit it into your savings account.
- Reduce food expenses by avoiding specialty drinks and super-sizing.
- Wait at least one week before making an impulse purchase.

Why Do We Invest Money?

Investing can also be a way for you to pay yourself first. **Investing** is the process of putting money some place with the intention of making a financial gain. When most people think about investing, they think about buying mutual funds, stocks, or real estate.

Investing your savings can be a good financial decision. Most financial advisors would recommend you first save money for an emergency fund, then start saving for investing. While investments tend to have a higher financial gain, there is no guarantee. Investing involves more risk than savings. **Risk** is the chance of losing some or all of the money you invested. When an investment makes money, you have earned a return on your investment. Risk also involves failing to make the best choice about saving and investing your money. For example, putting all of your money in a savings account at a low interest rate means you risk earning a higher rate of return through investing it.

Investing is a good way to make money if you have seven or more years before you need the money for your goal. If your goal is sooner, it is probably better to put the money in a savings account or a short-term certificate of deposit (CD).

Two months passed. Micah and his mom drove downtown to the dealer. That hot red car was still there.

No, it was not new, but it was HIS. And he did not owe anything on it.

Now he could start saving for that new speaker system.

Conclusion

Saving and investing are two ways you can reach your personal and financial goals. Both saving and investing involve making a commitment to the idea of setting aside money for the future, instead of spending everything today. The best way to develop good saving habits is to make saving a regular part of your life, along with spending.

Learning to pay yourself first is one of the best rules to follow when starting a savings habit. If you will consider the opportunity cost of spending today versus saving for your personal and financial goals, it will help you decide when to save and when to spend.

TEACHING TIP

If you want to introduce information on saving for college, visit the Oklahoma College Savings Plan Web site at http://www.ok4saving.org/ or Oklahoma Money Matters http://www.oklahomamoneymatters.org/, the financial literacy initiative from the Oklahoma State Board of Regents.

Name: ___________________________ Class Period: __________________________

Saving and Investing: Getting Started
Review Lesson 5.1

Answer the following questions and give the completed lesson to your teacher to review.

1. Classify the following items as very liquid (L) or not very liquid (N).

L	N	A baseball card collection
L	N	A checking account at your bank
L	N	Your car
L	N	A five-year CD
L	N	A 90-day CD

2. Deciding how many sodas you will give up for one hamburger is an example of

   a. rationing.
   b. dieting.
   c. budgeting.
   d. opportunity cost.

3. Explain the reason(s) you should pay yourself first.

4. Explain the differences between savings and investing.