OKLAHOMA STATE DEPARTMENT OF
EDUCATION
CHAMPION EXCELLENCE

Saving and Investing: Getting Started

Standard 5

The student will analyze the costs and benefits of saving and investing.

Lesson Objectives

- Describe the reasons people save and invest.
- Evaluate 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.

Budget: A plan for managing money, dividing up expected income and expenses among spending and saving options based on personal goals during a given time period.

Introduction

But, why can I not have it NOW?"

How many times have you asked that question or heard someone ask it? Micah heard this question from his little brother almost every day. He knows how important it is to save for the future because he was wanting to buy his own car when he turned 18. He'd started his own savings account and wished his little brother would stop whining about not having everything he wants.

How could Micah help his little brother stop wanting everything NOW?

Lesson

Saving money sounds like a great idea, but sometimes it is easier said than done. Some people think saving just means spending less, but it is much more than that. Saving money is a conscious decision to reduce your spending and set that money aside for future purchases. In other words, it is having money to meet your financial goals. While putting your change in a jar at night is a good start, it is only the first step. The value of saving is finding ways for your money to grow, which means allowing your money to earn additional money and help your savings to continue increasing. In other words, you want to earn interest on the money you have set aside for the future.

People save money for many different reasons. How about you? Maybe you are saving money to help pay your college tuition, to buy a car, or to get a new laptop. Or, maybe you are saving for something less expensive, such a gift for your best friend or a trip to see your grandparents. If you asked your parents, they might say they are saving to buying a new house, for their retirement, or to take the family on a nice vacation this summer.

Savings is defined as setting income aside for a future use or future purchase, or to redirect money from current spending to a savings account or another form of investment for the future. Whether you have a part-time job, get an allowance, or receive a cash gift for your birthday, you have an opportunity to start saving for something you want to buy. 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 much more likely to start saving.

If you do not save for things you want or need in the future, you will probably have to borrow money from someone else to pay for it. And, when you borrow money, you have to pay interest on the amount borrowed. So, saving your own money allows you to pay yourself rather than pay someone else.

While saving money may sound complex, it really is not. Basically, it means you are making choices about how to use your money. Your choice is to spend your money today or set it aside for something you want at a later time. The challenge is that waiting to spend money may not sound like fun, especially when your friends are going shopping and you have put your money in savings to buy new shoes for the prom. However, with a little practice and a commitment to your goals, you will start to realize the many benefits of saving.

Five Easy Ways to Save Money
Save your pay raises or any extra unexpected income; 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, like coffee and soda.
Wait at least one week before making an impulse purchase.

Sometimes, it seems almost impossible to save any money. For example, when you have made too many purchases on your credit card, you may be spending most of your income paying for past purchases and have little or no money available for the future. 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 the need to borrow money for future purchases.

Deciding to Save

The process of saving involves understanding your opportunity costs. An opportunity cost is your second best choice. It is what you would do if you decide not to save. For example, if you want to buy a new hat, you would need to decide if having that new hat today is better than saving to have a new car when you graduate. Even though the hat is less expensive than the car, you are spending money on the hat that you could be saving to get that new car. Only you can decide which has more value to you: getting the hat or putting aside the money to get the car. When you decide to start saving, you should stop and ask yourself this question: Is this something I want more than reaching my goal? For example, is buying this hat more important than saving this money for a new car?

While something like graduating from college without any student loans or student debt may seem unimportant now, it can have a huge impact on your financial future. Having a few less shoes or clothes today might mean you can own a home after you graduate or maybe buy that dream car you have been wanting for several years.

Strategies for Saving

The most important strategy for saving money is to start saving now. Until you take that first step, you will never have any savings. When you first start, it does not matter how much or how little you set aside each month; the secret is to start so your money can start earning interest. Unless you take the first step, you will be like others who talk about the need to save but never seem to do it.

How do you start saving money? That is an important question to ask. A great savings plan is to pay yourself first! Before spending money on anything else, put money in your savings account or your piggy bank. Whether your earn it or receive it as a gift, you should take at least ten percent of the money you received and immediately put it your savings. Then you can enjoy spending the rest. By setting aside just ten percent of all the money you earn or receive, you would be saving at a much faster rate than most people.

Saving money can be done several ways, but the two most recommended include opening a savings account or having some type of investment. With a savings account, you are putting your money 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 in savings to pay your bills for six months. This type of savings is called an emergency savings account and is one of the most important savings you can have because you have money available when you really need it for an emergency. Once you have an emergency account, you might consider putting your money into a government savings bond, a money market account, or even a certificate of deposit (CD). Investment tools like these are still safe and often pay more interest than a savings account, but your money may not be as liquid or as easy to access if you need it immediately.

REMINDER

Start saving now even if its as little as $5 a week. But you have to take the first step in saving. Make a habit out of saving and you will be surprised at how much you can save.

Liquidity refers to how easily you can turn something into spendable cash. For example, if you have a savings account, the money is easily available to you as cash; 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. A house 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. That is why most experts recommend having your emergency funds in a savings account before you start investing.

Why Do We Invest Money?

Investing is generally considered to be long-term savings. It is setting aside money today for future spending associated with financial goals longer than five years. Investing generally involves more complex financial instruments such as mutual funds, stocks, or real estate. When an investment makes money, you earn a return on your investment, but there is no guarantee because they have more risk than a savings account.

Risk is the chance of losing some or all of the money you invested, but failing to make the best choice about saving and investing your money is also a risk. For example, putting all of your money in a savings account at a low interest rate means you risk potentially earning a higher rate of return through investing it. As a general rule, the higher the potential rate or return, the higher the risk – but there is also the risk you could lose your money.

People invest because their investments usually make money over a long period of time. However, if you have a short-term goal of less than a year, it is probably better to put the money in a savings account or a short-term certificate of deposit (CD) at a bank to ensure it is readily available when you need it.

Conclusion

Saving and investing are two ways you can reach your personal and financial goals. Both saving and investing require 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. Learning to pay yourself first is one of the best rules to follow when starting a savings habit. If you 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.

FINAL NOTE: Micah may want to help his little brother identify something he really wants to buy and then help him start saving to buy it. He may also explain how he is saving money to buy a car and promise to take him for a ride as soon as he has saved enough to get it. Helping his little brother understand opportunity costs, goals, and savings will allow his brother to start making better choices now.

This lesson was written and created by Oklahoma educators in partnership with
Oklahoma Council on Economic Education

Name:_______________________________Class Period: ______________________________

Saving and Investing: Getting Started Review 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. Write your own definition of opportunity cost.

3. List two reasons you should pay yourself first.

4. Explain the difference between savings and investing.

Name:________________________________Class Period: ______________________________

Saving and Investing: Getting Started Activity 5.1

Part A. Think of three items you would like to have or you need. List them in Column A. In Column B, write down how much it will cost to have each item listed in A. You may need to estimate the cost or do some investigation to determine the price. In Column C, write down your opportunity cost – or what you are willing to give up in order to have what you listed in Column A.

Column A **What I want to have**	**Column B** **Price**	**Column C** **What I will give up to have it**

Part B. List five steps you can take to start saving money.

1.

2.

3.

4.

5.