Introduction to Saving

Grade Level 10-12

"Take Charge of Your Finances"

Time to complete: 60 minutes

National Content Standards

Family and Consumer Science Standards: 1.1.6, 2.1.1, 2.1.2, 2.5.4, 2.6.1, 2.6.2, 3.3.2, 3.3.4
National Council on Economic Education Teaching Standards: 3
National Standards for Business Education

- Career Development:
- Economics:
- Personal Finance: III.1, III.2, IV.1, IV.2, VIII.1

Objectives

Upon completion of this lesson, students will be able to:

- Differentiate between savings and investing.
- Identify reasons to develop a savings plan.
- Define the 70-20-10 rule associated with savings and investing.

Introduction

Saving is difficult for many people because it involves decreasing current consumption and investing in a future standard of living. Some individuals incorrectly view savings as what is remaining after their current wants and needs have been satisfied. The future is an unknown risk for people, which is one of many reasons why they have such difficulty saving money. Without developing a savings and investing plan and making savings a priority by paying yourself first, individuals will not have the financial means to meet future financial goals such as purchasing a car, putting a down payment on a home, and meeting retirement needs.

It is important to understand the difference between savings and investing. **Savings** is the portion of current income not spent on consumption. **Savings accounts** provide an easily accessible place for people to store their money to meet daily living expenses and to have money for emergencies. Financial experts recommend individuals keep a minimum of three to six months of salary is in a savings account. Savings accounts generally yield a lower interest rate than investments, but are more secure in that the saver will not lose their principle. The **interest rate** refers to the percentage rate paid on the money saved or invested.

Investing is the purchase of assets with the goal of increasing future income. There is a large variety of investment opportunities that vary dramatically in the rates of return investors receive. **Rate of return** refers to the annual return on an investment including appreciation and dividends or interest. A prerequisite to investing is to have a developed and implemented savings plan before a person begins investing.

Liquidity is how quickly and easily an asset can be converted into cash. If an individual were to have an emergency, cash needs to be easily accessible. Savings accounts are more liquid than investments because a person can easily get money out of a savings account in a few minutes, while it is harder to get money out of an investment because they are not easily accessible.

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Saving money should be viewed as a fixed expense. A popular adage describing this is "**pay yourself first,**" which means to take out a portion of a paycheck for saving or investing before using any of the check for spending. Each time a person receives money, it should be divided by the **70-20-10 rule.** This implies to spend 70% of the money, save 20% of the money, and invest 10% of the money. An individual who follows this advice is well on his/her way to financial success. The 70-20-10 rule is ideal. However, it may be unrealistic for some individuals. A person's values or philanthropic gestures may prevent them from saving and investing 30% of their income. In such an instance, it is acceptable to save less as long as one has initiated a savings and investing plan they adhere to allowing them to continually save a fixed amount. A **savings plan** is a strategy for putting a portion of money from current income aside, which will not be spent on consumption, to reach a specified goal.

In this lesson, participants discuss the difference between savings and investing and learn the importance of saving. They have the opportunity to brainstorm reasons to begin saving and why some people do not. Participants also evaluate recommended savings guidelines and develop a savings goal for themselves.

Body

1. Brainstorm with participants future financial goals they may have. Goals could include purchasing a car, buying a stereo, paying for college, etc.
2. Discuss with the participants how they plan on achieving these goals.
    a. These goals cannot be achieved without developing a financial plan which includes saving.
3. Hand out one *Introduction to Saving* Note Taking guide per participant 1.14.1.L1 to complete during the lesson.
4. Present *Introduction to Saving* PowerPoint presentation 1.14.1.G1.
    a. Slide 1-3: Introduction
    b. Slide 4-5: Saving vs. Investing
        i. **Savings** – current income not spent on consumption.
        ii. **Liquidity** – how quickly and easily an asset can be converted into cash.
            1. Money in a savings plan is generally liquid
        iii. **Investing** – assets purchased with the goal of increasing income.
        iv. Investments are not liquid and easily accessible.
        v. To begin investing, a person must first have a developed and implemented a savings plan.
            a. If an individual were to have an emergency, cash needs to be easily accessible. Savings accounts are more liquid than investments because a person can easily get money out of a savings account in a few minutes, while it is harder to get money out of an investment because they are not easily accessible.
    c. Slide 6: Reasons People Should Save
        i. Emergencies – It is recommended individuals have a minimum of three to six months of salary in savings accounts for emergencies. Examples of emergencies can include illness, losing a job, or immediate need to replace a large item such as a washing machine.
        ii. Expenses – Savings accounts can be used as a budgeting tool to manage monthly expenses.
        iii. Future purchases – Money can be used to meet future goals such as a college education, new car, down payment on a home, or a new stereo.
        iv. Investing – After an individual has established a savings account, money should be invested monthly for future income.
    d. Slide 7: Why People Don't Save
        i. Brainstorm with participants reasons why people do not begin a savings plan.
            1. People are not having their current consumption needs and wants met.
            2. People do not know how much they need to be saving or investing for future goals.

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3. Money in savings accounts earns such poor interest rates. It barely (if at all) keeps up with inflation.
    a. Investing usually gains higher interest rates.
4. Individuals justify not needing money for emergencies because they have credit easily available.
5. People feel they have adequate insurance and job security; therefore they do not need money for emergencies.

e. Slide 8: Developing a Spending Plan
    i. If a person is not already saving, track spending for one month to determine where money is currently going.
    ii. Then evaluate spending and determine where money can be saved.
    iii. Decide how much will be put into savings each month.
    iv. Put a plan in writing and stick to it!
    v. Be willing to make adjustments. If the savings plan is not working evaluate why. Perhaps, an individual needs to earn more income.

f. Slide 9: "Pay Yourself First"
    i. Ask participants what the popular adage "**Pay Yourself First**" means.
        1. Put money away into savings or investments BEFORE you pay other bills or use money for other spending

g. Slide 10: **70-20-10 rule**.
    i. This is a general guideline assisting people in determining how much money they should save and invest.
    ii. Each time an individual receives money 70% can be spent, 20% should be saved, and 10% should be invested.

Conclusion

Stress the importance of saving with participants. Review the 70-20-10 rule with participants. Discuss any barriers which may prevent them from developing a savings plan.

Assessment

Participants complete the *Savings vs. Investing* worksheet 1.14.1.A1

Materials

Savings vs. Investing worksheet – 1.14.1.A1
Introduction to Saving Information Sheet – 1.14.1.F1
Introduction to Saving PowerPoint presentation – 1.14.1.G1
Introduction to Saving Note Taking Guide – 1.14.1.L1

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Savings Note Taking Guide

	Total Points Earned
26	Total Points Possible
	Percentage

Name_______________________

Date_______________________

Class_______________________

Financial Goals cannot be achieved without savings

Savings -

Savings Account -

How much do experts recommend keeping in a savings account?

Savings Account Uses:
1.
2.
3.
4.

Saving vs. Investing

More Liquidity - Less

Investing is the purchase of assets with the goal of increasing future income

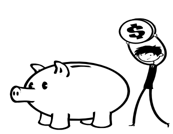
More Rate of Return - Less

What are 2 reasons why people should save?
1.
2.

List 3 examples of why people do not save
1.
2.
3.

Steps to Developing a Savings Plan:
1.
2.
3.
4.

What does "Pay Yourself First" mean?



70-20-10 Rule

Spend ________ of your money
Save ________ of your money
Invest ________ of your money

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Savings vs. Investing

	Total Points Earned
18	Total Points Possible
	Percentage

Name____________________

Date____________________

Class____________________

Directions: Complete the following questions by placing the letter of the term next to its correct definition. (Each is worth 1 point)

1. _______Provide an easily accessible place for people to store their money to meet daily living expenses.
2. _______The portion of current income not spent on consumption.
3. _______Putting money away into a savings account or investing it before bills are paid.
4. _______How quickly and easily an asses can be converted into cash.

A) Liquidity
B) Savings account
C) Savings
D) Pay Yourself First

5. Identify two reasons why people do not save and an argument for each of them (4 points)

Place the following spending plan steps in the correct order by indicating the appropriate number next to each step. Indicate number one for the first step, to number four the last step. (each question is one point)

6. _______Be willing to make adjustments. If the savings plan is not working evaluate why.

7. _______Evaluate spending and determine where money can be saved

8. _______Track spending for one month to determine where money is currently going

9. _______Decide what amount will be put into savings per month put your decision into writing and stick with it!

10. A young couple is trying to decide if they want to begin saving now or later in life. What are two reasons why they should begin saving now? (worth 2 points)

11. Explain the difference between savings and investing. (4 points)

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