Introduction

When you think about saving, banks and other financial institutions come to mind. Saving is the part of income that you choose to set aside for purchases you wish to make in the future. Why should you save? Where should you save? How do you save? These are questions that will be answered in this chapter. You will examine the concepts of **interest** and **compound interest**. For example, have you ever heard of the **rule of 72**?

In the second part, you will examine the role that financial institutions play between savers and borrowers, as well as the role the **Federal Deposit Insurance Corporation (FDIC)** plays in protecting savings. You will learn some excellent information about keeping your money safe, but still having good access to it. Having a special stash of cash under the T-shirts in the back of your top drawer or under your mattress is one approach, but banking offers a way to manage your day-to-day finances and provide safety too.

Saving Money

New clothes, music, a car – these are all things we want and maybe even need. But if we spend without a plan, then all our money can disappear before we even realize it. Every time you spend money, you're deciding not to save it. What you spend today determines how much you have tomorrow.

We save money now so we can spend it at a later time. We do this for three main purposes:
1. To prepare for emergencies (car repairs, medical expenses, legal expenses, unemployment)
2. To purchase more expensive items that we cannot immediately afford (vacation, car, house, college)
3. To provide money for retirement.

The more we save now, the more we will be able to spend later.

Some items lose their value as soon as you purchase them – like a candy bar or soda. Some purchases will keep their value a little longer – like new clothes that you will wear for a while or a stereo system you'll keep for a couple of years. People choose between immediate spending and saving for future purchases. Some people choose immediate spending over saving for the future.

What are some of the things you purchased in the last few weeks?

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Are you glad you spent the money on those purchases? Or do you wish you saved the money for something?

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Savings can also be classified by their time frame. When we expect to use savings within a few years or less, our priority is keeping our money accessible and safe. These "savings" are usually kept in a financial institution, like a bank or **credit union**, where we receive low **interest** rates. Short-term saving is saving for something you want to purchase within the year, such as the money for a down payment on a car or car insurance for a year. Long-term saving is saving for something even bigger or longer in the future, like money for continuing your education or money to take a special trip. Both kinds of saving require planning and goal setting. Both kinds of saving require making a commitment to the future.

What are some of your short-term saving goals?

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What are some of your long-term saving goals?

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One sure way to make sure you save is to make saving your most important expense. If saving is something you do if you have extra money left over, then you probably won't save very much. If you treat saving as something you must take care of – just like any other bill for financial obligation, then you will have greater success saving money. Pay yourself first. One way to do this is to set up **direct deposit** with your employer. Your bank can then take a percentage of your weekly income and automatically deposit it into a savings account or a retirement account so the money will be there when it is needed. Go to the following website for information on setting up **direct deposit** with a bank.
http://www.handsonbanking.org/htdocs/en/y/#/en/y/si/rew/index.html

Using Decision Making Skills for Saving:

Different people save money for different reasons. Your decision-making choices about how much to save and what to save are based on your tastes, preferences and goals.

Planning and Goal Setting: What is one of your saving goals?	
What are the costs? What are the benefits? What money have you saved? How will you make money? What is your opportunity cost or the next best thing you have to give up if you are saving?	
Making the Decision: Now that you have gathered facts and considered costs/benefits, make a decision.	
Assessing Outcomes: After making a decision, consider your other saving and spending goals.	

Summary: Create an argument about why and how you could save for your goal. Use information from the text in your analysis.

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Financial Institutions

Many people decide they would like to save their money in a financial institution, like a bank or credit union. Before considering a financial Institution, you may wonder if your savings are safer than they would be if you hid your money under a mattress!

Government agencies like the **Federal Deposit Insurance Corporation (FCIC)** and the **National Credit Union Administration (NCUA)** guarantee depositors' savings in most financial institutions up to a set limit.

Conduct your own research on the role that government agencies play in regulating financial institutions to protect the safety of your money. Investigate the following agencies:

1. **Federal Reserve**: http://www.federalreserve.gov/
2. **FDIC**: https://www.fdic.gov/
3. Office of the Comptroller of the Currency: http://www.occ.gov/
4. **NCUA**: http://www.ncua.gov/Pages/default.aspx
5. Consumer Financial Protection Bureau: http://www.consumerfinance.gov/
6. State banking departments:
   a. Florida Department of Financial Services: http://www.myfloridacfo.com/
   b. Florida Office of Financial Regulation: http://www.flofr.com/

What did you learn about the services of these organizations to protect your money?

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Savings and Checking Accounts

There are a variety of different types of accounts you can use to save money. For the short term, people generally deposit money in savings and/or checking accounts.

Savings Accounts

This is the traditional way to save money in a bank. Did you know that many financial institutions pay you to keep your money in the bank? As long as you keep money in your account, the bank pays you interest and your mone grows. For this account, the bank sends you a statement that details all of your **deposits** and **withdrawals** a the **interest** you've earned either once a month or once a quarter (every 3 months). There are different types savings accounts:

Regular savings accounts:

- Pays you monthly interest
- May require a minimum deposit, which is the amount you put into the bank
- May have limits on withdrawals—money you can take out
- Pay low interest rates compared to other ways of saving

Certificate of Deposit (CD):

- Money must remain in account for a term or a fixed period of time
- The more money you deposit and the longer you keep it in the account, the more **interest** you earn
- You pay a penalty if you **withdraw** money before the term is over

Money Market Accounts:
- Savings accounts that let you write a limited amount of checks
- Limits on **withdrawals**
- Higher **interest** rates than regular savings accounts

http://www.handsonbanking.org/financial-education/teens/types-of-savings-accounts/

Checking Accounts: In addition to savings accounts, banks also offer checking accounts, which allow you to **deposit** and **withdraw** your money whenever you'd like. It also allows you to transfer money to pay for goods and services. Remember these facts about checking accounts:
- Usually do not pay you **interest**
- You can write checks, use **debit cards** or pay online
- Good for paying bills
- Safer and more convenient than carrying cash

http://www.handsonbanking.org/financial-education/teens/checking-accounts/

Interest

One of the best reasons to consider a financial institution is that you will receive **interest** on your money. What does that mean for a saver? According to the Council for Economic Education, Standards for Financial Literacy, "an **interest** rate is the price a financial institution pays for using a saver's money and is normally expressed as an annual percentage of the amount saved" (CEE, 2013, p. 12). In other words, **interest** is the amount of money a bank pays to a customer annually for the use of the money **deposited**. It is also the amount of money a bank charges a customer when the customer borrows money from the bank in the form of a loan. **Interest** rates paid on savings accounts are always lower than **interest** rates charged on loans. Remember that banks are in business to make a profit. Therefore, if the average **interest** rate on loans is 10%, a bank may pay 5% on a savings account. But if **interest** rates on loans are only 5%, a bank may only pay 1% on a savings account.

Before you choose a financial institution, check the **interest** rates they pay on your money and fees they may charge. Go online and find three different banks, credit unions, or other financial institutions. Find their **interest** rates.

NAME OF FINANCIAL INSTITUTION	INTEREST RATES FOR DIFFERENT ACCOUNTS
1.	
2.	
3.	

What differences did you discover?

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The Rule of 72

This is a rule for quickly determining exponential growth of an investment using **compound interest**. Seventy-two divided by the **interest rate** will tell you how many years it will take your investment to double. Thus, if you have an **interest rate** of 4%, you would divide 72/4 and it will take 18 years for your initial **deposit** to double.

Compound Interest

Suppose you invest $10,000 into a savings account that pays 5% **interest**. At the end of the year, you will increase your bank account by $500. (10,000 x .05 = 500.00) Now you have $10,500 in your account. In the second year, the bank will now pay **interest** on $10,500 (10,500 x .05 = 525.00). Now you have $11,025.00 in your account. **Compound interest** works faster because **interest** is paid on **interest** from the last year.

This would mean at the end of:
- 5 years, your account would equal $1,2762.82
- 10 years, your account would equal $16,288.95
- 20 years, your account would equal $ 26,532.98
- 30 years, your account would equal $ 43,219.42

The equation for **compound interest** is:

$$\text{Total} = \text{Principal} \times (1 + \text{rate})^{\text{years}}$$

For example, suppose you **deposit** $1,500 in a savings account paying 4.3% **interest**. What will be your balance after 6 years?

$$1500 \times (1 + .043)^6 = \underline{\$1,931.07}$$

Now, consider some of the following calculations. You can either use the equation above (and calculate by hand) or find an **interest** calculator by doing a website search for "**compound interest** calculator." In addition, you can search for free apps that will do the calculations.

1. If you put $500 in a savings account that paid 6.5% **interest** APY, how much **interest** would you have in two years?

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2. If you put $1500 in a savings account that paid 4.5% **interest** APY, how much **interest** would you have in ten years?

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3. Using a **compound interest** calculator, if you put $100 each month into a savings account that paid a **compound interest** rate of 5.5% each year, how much would you have in your account at the end of five years?

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4. Using a **compound interest** calculator, if you put $10 each week into a savings account that paid 5% interest APV, how much money would you have in your account after five years?

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