

Why should I get into the habit of saving money?

# Chapter 26

## Savings

### Key Terms

*interest*  
*principal*  
*compound interest*  
*annual percentage yield (APY)*  
*direct deposit*  
*savings club*  
*certificate of deposit (CD)*  
*money market account*  
*U.S. savings bond*  
*mutual fund*  
*annuity*

### Chapter Objectives

After studying this chapter, you will be able to

- **determine** reasons for saving.
- **list** the types of financial institutions that offer savings accounts and the agencies that insure them.
- **compare** the various ways to save.
- **identify** ways to protect yourself against investment fraud.

### Key Concepts

- Saving money allows you to meet future financial goals.
- Savings accounts differ in terms of safety, yield, fees, convenience, and account requirements.
- Saving for the long term, especially retirement, requires an understanding of how money can grow over time.
- Savers must stay alert to fraud schemes because they can destroy a lifetime of savings.

## Reasons for Saving

Saving money is sound personal money management. You should save a portion of each paycheck based on your take-home pay and personal needs. The more you make, the more you should save.

A general rule to help make saving a priority is to pay yourself first. This means setting aside a fixed amount of your income every pay period. Treating your savings as a fixed expense and avoiding excuses will help you achieve future goals. See 26-1.

There are many reasons for saving for the future. These reasons are as varied as each person's wants and needs. The following events are common reasons for saving:

- emergencies
- possible job loss
- travel and recreation
- advanced education
- major purchases such as a car or home
- retirement



### Your Reading

What does it mean to *pay yourself first*?

#### Excuses for Not Saving Money

Excuse	Rebuttal
<b>I can't afford it.</b>	The first check you write every month should be to yourself, even if it's for a small amount. Carefully tracking your finances can help identify ways to eliminate unnecessary spending and save more money.
<b>I'll start saving when I'm older.</b>	Time is a valuable resource when saving money. Interest-earning savings increase over time, so the earlier you start saving, the more your money will grow.
<b>Someone else will take care of it.</b>	You are responsible for your own financial future. It is up to you to make saving a priority.
<b>I deserve to get what I want.</b>	Buying expensive items can bring immediate gratification, but it doesn't outweigh the long-term satisfaction of financial independence.

#### 26-1

Overcoming these common excuses is an important step in developing the habit of saving.

## Where to Save

You have several options for saving your money. Become familiar with the types of financial institutions that offer savings accounts. Find out how much interest each pays on the accounts. Then decide where you want to deposit your money.

- **Commercial banks** are known as the department stores of finance. They offer a full variety of banking services. They make loans and transfer funds. They also provide financial advice and offer savings accounts.
- **Savings banks** are primarily known for lending money to homebuyers. Their primary customers are small businesses and individuals.
- **Internet banks** provide banking services online and have no physical branch offices. With minimal operating expenses, Internet banks are able to offer higher interest rates for savings accounts, CDs, and money market accounts. Internet banks can be either commercial or savings banks.
- **Credit unions** are nonprofit financial institutions. They are owned by and operated for their members. Most credit unions serve people in a particular community, group, company, or organization. Credit unions make loans to their members at low interest rates. Also, they usually pay higher interest rates than banks do on savings accounts.



### Community Connections

Compare the savings rates of various types of accounts offered by banks and financial institutions in the area. Create a chart that lists the banking institutions alphabetically down the left side, with the names of the various methods of saving money across the top. Identify specific requirements for each account.



### Your Reading

Why is it important for savings to be FDIC insured?

### Will Your Savings Be Safe?

Financial institutions that are insured are safe places to keep your money. You get more protection from them than you would if you kept your money at home. Each account is insured up to \$100,000. If the bank suffers a fire, bankruptcy, or any other disaster, your money stays safe. Before you open a savings account, check to see that it would be insured.

Two agencies are responsible for insuring most of the money in savings accounts. The *Federal Deposit Insurance Corporation (FDIC)* protects deposits in most commercial and savings banks. The *National Credit Union Association (NCUA)* protects deposits in credit unions.

## Ways to Save

There are many ways to save. You should discuss your options with customer service representatives in local financial institutions. They will be happy to describe the various savings plans offered. Savings accounts, savings clubs, certificates of deposit, and U.S. savings bonds are some of the more common ways to save.


## Savings Accounts

After opening a *regular savings account*, you can make deposits and withdrawals at any time. You receive a monthly or quarterly statement in the mail or online. All deposits and withdrawals are recorded in the statements. Be sure to double-check your account activity when you receive your statement. See 26-2.

Your savings account will earn interest. **Interest** is money paid to you for allowing a financial institution to have and use your money. The longer you leave your money in a savings account, the more interest you will earn. Many savings accounts calculate interest daily, but some use the average of all daily balances. Some accounts pay higher interest rates for higher balances. If a withdrawal reduces the balance below the required minimum, you receive no interest for the period and are charged a penalty.

### interest

The money paid to customers for allowing a financial institution to have and use their money.

		ACCOUNT #29-3689865				
Financial Institution Your City, U.S.A. 12345						
DATE	MEMO	INTEREST	WITHDRAWALS	DEPOSITS	BALANCE	TELLER
06-15	--			200.00	200.00	04
06-22	--			50.00	250.00	07
06-26	CW		15.00		235.00	02
06-29	--			50.00	285.00	04
06-30		.51			285.51	05
07-06	--			52.00	337.51	01
07-13	--			50.00	387.51	04
07-21	CW		150.00		237.51	04

### 26-2

Savings account deposits and withdrawals are recorded in a statement.

**principal**

The original investment, such as a savings account deposit.

**compound interest**

Interest figured on the principal plus the earned interest of a financial account.

**annual percentage yield (APY)**

The rate (or percent) of yearly earnings from an account; also called *annual yield*, *interest rate*, and *rate of return*.

As interest is added to a savings account, it too begins to earn interest. Both the deposit, known as **principal**, and the earned interest continue to earn interest. This is known as **compound interest**.

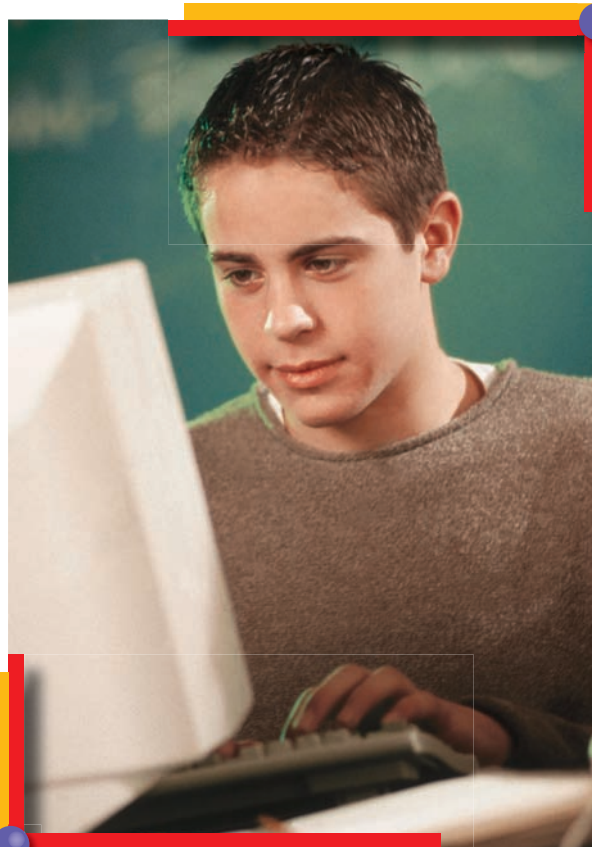
When comparing savings accounts, look for the annual percentage yield (APY). **Annual percentage yield** is the rate (or percent) of yearly earnings from an account. Other names for the APY are *annual yield*, *interest rate*, and *rate of return*. The higher the APY, the more your savings will grow. See 26-3.

## Opening a Savings Account

Convenience is important when deciding where to open a savings account. Focus on financial institutions close to your home or workplace with hours that meet your needs. Compare Internet banks if you prefer to do your banking online. Next, find out which financial institution pays the highest interest rates for the type of savings account that interests you. Different institutions pay different rates of interest.

**26-3**

You can find the APY of most savings accounts by visiting financial institution Web sites.



Finally, keep in mind that you do not need to choose the same institution for all your financial needs. For convenience, you may wish to have your checking account and your savings account in the same place. However, you can have your checking account in one place and your savings account in another. Shop around for the service that best meets your needs.

## Comparing Fees


Most banks require you to maintain a minimum balance in your account. If you do not maintain that balance, you may be charged a service fee. Some banks have student accounts that may not require a minimum balance. When you open an account, it is important that you know what fees will be charged.

Often banks will have special programs for minors. Usually these are offered to children of parents or guardians who already have an account at the bank. The programs allow you to keep an account with a small balance without a bank charge.

## Making a Deposit

To deposit money in your savings account, you need to fill out a savings deposit form, 26-4. It is important to fill out the form correctly by following certain steps:

- Write your name, the date, and your account number. (Personalized forms that are printed with your checks already contain your account number.)
- On the *currency line*, list the total amount of paper money you are depositing.

SAVINGS DEPOSIT	
ACCOUNT NO.	29-3689865
NAME	LaTonya Roberts
DATE	May 25
SIGN HERE ONLY IF CASH RECEIVED FROM DEPOSIT	
 FI Financial Institution Your City, U.S.A. 12345	
ALL ITEMS ARE ACCEPTED SUBJECT TO OUR RULES AND REGULATIONS APPLICABLE TO THIS ACCOUNT	

CURRENCY	26	00
COIN	3	42
LIST CHECKS SINGLY	87	50
	2	00
TOTAL FROM OTHER SIDE		
SUB-TOTAL	118	92
TOTAL LESS CASH RECEIVED		
TOTAL DEPOSIT	118	92

USE OTHER SIDE FOR ADDITIONAL LISTING

BE SURE EACH ITEM IS PROPERLY ENDORSED

### 26-4

Savings account customers must complete deposit slips to add money to their accounts.



- On the *coin line*, list the total amount of pennies, nickels, dimes, and other coins you are depositing. (Currency and coin may be combined on a single *cash line*.)
- List each check separately on the lines provided.
- Add all the money you have listed and write the total on the line provided.
- Indicate the amount of cash, if any, you would like to receive.
- Subtract the amount of cash to be received from the total of the coins, currency, and checks. Write the amount of the net deposit.
- Present your money and the completed deposit form to the teller. The teller will record your deposit in your account. Any interest earned on your savings will be figured into your account at the end of each interest period.

## Transferring Funds Electronically

You can also make deposits into your savings account electronically. An *electronic funds transfer (EFT)* is the deposit or withdrawal of funds using a computer instead of paper forms. If you have access to online banking, you may be able to transfer funds between accounts using your personal computer.

## Using Direct Deposit

### direct deposit

Program that allows an employer to deposit a paycheck directly into an employee's account.

Most employers offer direct deposit of paychecks, which is a type of electronic funds transfer. In a **direct deposit** program, you can split your deposit into one or more existing accounts. To take advantage of a direct deposit plan, you must complete a form provided by your employer. Then, your pay goes directly to one or more of your accounts on paydays.

## Withdrawing Money

As with depositing, you need a special form for withdrawing money from your savings account. See 26-5. Follow these steps to fill out a withdrawal form:


- Write your name, the date, and your account number.
- Write the amount of money you wish to withdraw.

**SAVINGS WITHDRAWAL** must be presented by the savings customer in person.

NAME LATONYA ROBERTS 0-6789/0000  
PLEASE TYPE OR PRINT CLEARLY

ACCOUNT NO. 29-3689865 JUNE 8

THIRTY FIVE AND 00 Dollars \$ 35.00  
DEDUCT ABOVE SUM FROM MY SAVINGS ACCOUNT  
ON DEPOSIT WITH:

 **FI**  
 Financial Institution  
 Your City, U.S.A. 12345

Sign here LaTonya Roberts

**26-5**

Completing withdrawal slips allows bank customers to take money from their savings accounts.

- Sign your name on the withdrawal form.
- Present your completed withdrawal form to the teller. The teller will deduct your withdrawal from your account, update your balance, and give you your money.

## Savings Clubs

A **savings club** encourages you to form a habit of saving money. When you open a savings club account, you set up a savings plan. You decide to deposit a set amount of money every week or every month. You are given a savings club book with an account number on it.

Every time you make a deposit, you use a deposit slip from your savings club book. At the end of your savings period, you receive a check for the amount you saved plus the interest you earned. You can then use the money you saved to reach a goal you set for yourself. Some people use savings clubs to save money for holiday gifts or vacations.

### savings club

A savings plan into which a set amount of money is deposited regularly until a savings goal is reached.

## Certificates of Deposit

As your earnings and savings increase, you should consider expanding your savings. You may wish to invest in a **certificate of deposit**, known as a **CD**. You can buy them at a bank or credit union.

At the time of purchase, you must decide how much you want to deposit and for how long. CDs are usually sold in amounts of \$500 or more. The money is held for a set period of time. The time period may be as short as 31 days or as long as several years.

### certificate of deposit (CD)

A savings certificate earning a fixed rate of interest that is purchased for a specific amount of money and held for a set period of time.





## Community Connections

Interview three adults in the community to find out their opinions on saving money and maintaining a savings account. Ask the adults what advice they feel is important on the subject of saving money. Find out how long the savers have had their accounts. Report your findings to the class.

### money market account

A type of savings account that is similar to a CD, but has no time restrictions.

### U.S. savings bond

A certificate of debt issued by the federal government that serves as a safe way to save money.

Interest rates for CDs vary. Overall, CDs earn higher rates of interest than savings accounts or clubs. Also, larger CDs usually earn higher rates of interest. However, there are penalties for early withdrawal. If you withdraw money from a CD before the end of the set time period, you will lose some interest.

Before you buy a CD, contact several financial institutions. Compare interest rates, minimum amounts of deposit, and penalties for early withdrawal. Choose the CD that best meets your needs.

## Money Market Accounts

Your banking institution also offers money market accounts. A **money market account** is similar to a CD, but has no time period restrictions. Money can be withdrawn or added at any time with this type of savings account.

Money market savings accounts usually have a rate of interest that is higher than a regular savings account, but lower than a CD. The rate may vary monthly. This type of account also permits limited check-writing privileges. Most money market accounts require a minimum balance of \$1,000 to \$2,500.

## U.S. Savings Bonds

Many people choose to save money by buying a **U.S. savings bond**. This is a certificate of debt issued by the federal government. There are two types of U.S. savings bonds available.

- **EE bonds** earn a fixed interest rate for up to 30 years.
- **I bonds** earn a fixed interest rate plus a variable rate to protect against inflation. I Bonds earn interest for up to 30 years.

People purchase U.S. savings bonds for several reasons:

- **Safety**—If the bonds are lost, stolen, or destroyed, they can be replaced. The U.S. government issues them.
- **Convenience**—They are available online at the U.S. Treasury Web site for as little as \$25 and at financial institutions for \$50. Also, many companies offer payroll savings plans. In such plans, an amount determined by the employee is deducted from paychecks for the purchase of the bonds.

- *Higher interest rate*—U.S. savings bonds earn a higher rate than regular savings accounts and savings clubs. Also, the interest earned is not taxed until the bonds are cashed.
- *Patriotism*—Buying U.S. savings bonds is a way to support the government. The money used to buy them goes to the government treasury. See 26-6.

Once you buy a U.S. savings bond, you must keep it for at least twelve months. If you cash a bond before it is five years old, you will lose three months of interest. The longer you keep a bond, the more interest it earns.

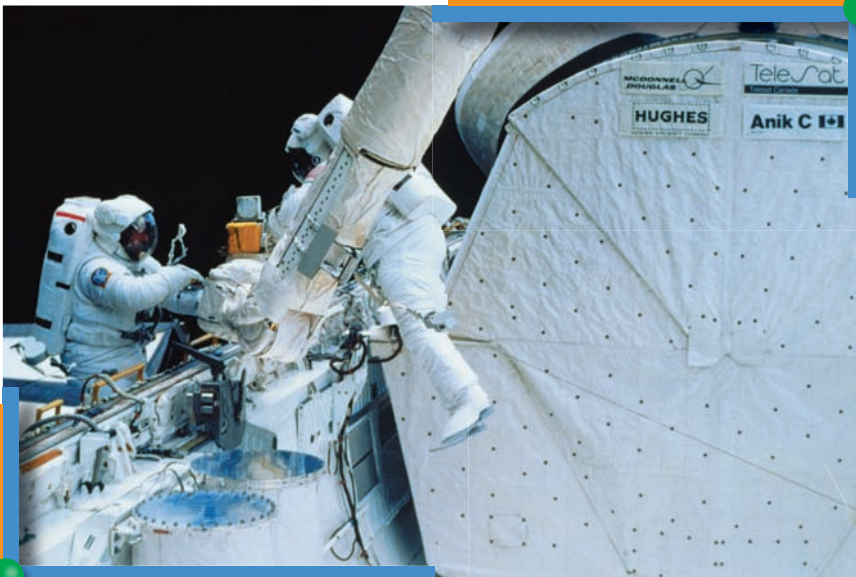
## Mutual Funds

A **mutual fund** is a long-term investment that provides a way to invest in stocks and bonds. Over time, it generally provides a greater return than other forms of savings accounts. Many banks offer access to mutual funds as a service to their depositors, but extra fees may be involved.

When you purchase a mutual fund, your money is pooled with many other investors. The money is then invested by a fund manager in various stocks, bonds, or other money instruments. Investing in a mutual fund gives you professional assistance with your investment. You own a share of many different stocks and bonds.

### mutual fund

A long-term investment that provides a way to invest in stocks and bonds.



### 26-6

The government treasury, which includes money from U.S. savings bonds, is used to fund projects such as space exploration.

Mutual funds are listed in a daily newspaper's business section or on its Web site. Most mutual funds require an initial investment of \$2,500, but follow-up deposits can be as little as \$100. Initial deposits may be *waived*, or dismissed, if you set up the account for fixed monthly deposits.

It is important to research mutual funds before you invest. By law, the investment firm that manages the fund must provide a prospectus. A *prospectus* is a description of the fund's purpose, past performance, types of investments, and related fees. Read the prospectus carefully. If you don't understand something, ask for an explanation before you invest.

The value of a mutual fund rises and falls with the value of the stocks and bonds they contain. Unlike a checking account or savings account, the government does not insure a mutual fund.

### annuity

A form of investment that lasts 10 or 15 years and provides insurance as well as savings.



## Making a Difference

Research Individual Development Accounts (IDAs). How does this type of savings account assist low-income families? What services are offered as part of an IDA? Where can people open an IDA in your community? Design an informational brochure to distribute in your community.

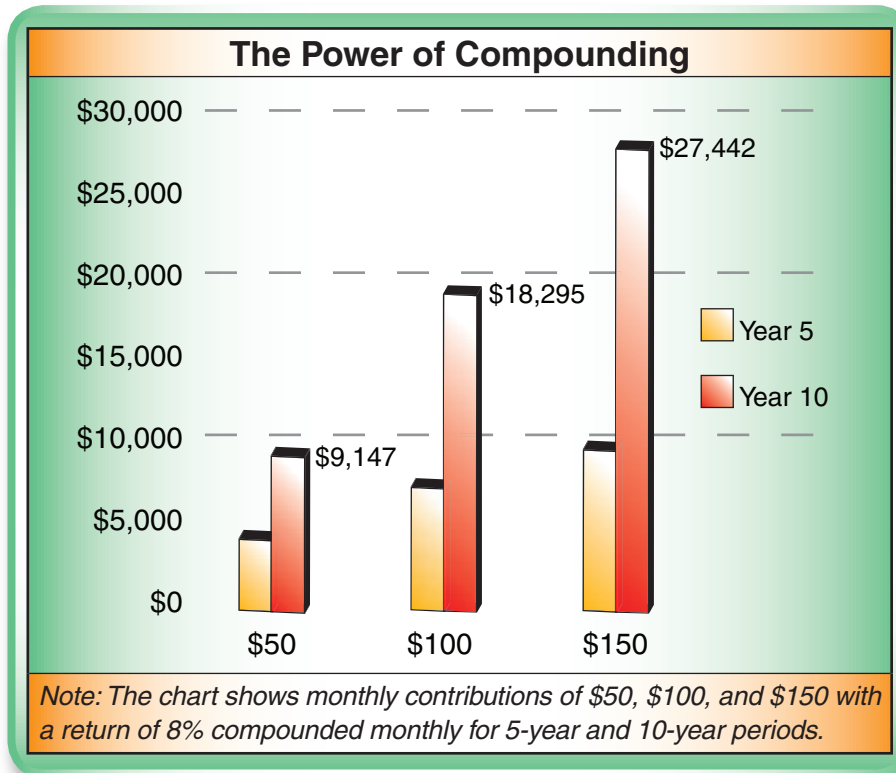
## Annuities

Another form of long-term savings is an **annuity**. An annuity provides both insurance and savings. Annuities are usually invested for 10 or 15 years. They may be issued longer or the term can be extended. In the event of the owner's death, benefits of an annuity are often paid like life insurance. An annuity is often purchased for retirement or future security. Annuities earnings grow tax deferred. *Tax deferred* means that you don't pay tax on the earnings until you withdraw the money. The government does not insure annuities, but the issuing insurance company may guarantee your initial investment.

## Retirement Accounts

Retirement may be many years away, but saving for it should begin early. While earning an income, you will need to save money to live on later in life. Start saving regularly when you begin working, and your money will benefit from the power of compounding, 26-7. An initial deposit invested over several decades in a taxfree account can generate big earnings.

Some retirement savings plans, such as a 401(k) or 403(b), are offered through employers. It is important to understand how your workplace retirement plan operates, how to make contributions, and where your money will be invested.



Source: The Ohio Tuition Trust Authority

Companies may match employee contributions. A plan with matching contributions is a valuable benefit and helps your savings grow more quickly. Many financial experts consider an employer-sponsored “matching” plan to be the best way to save for retirement.

You can also save for retirement by opening an Individual Retirement Account (IRA). An IRA is an investment account that offers tax breaks as an incentive to save for retirement. You will need to choose what type of IRA to open, Roth or traditional, and how to invest the funds. IRA accounts may consist of CDs, stocks, bonds, mutual funds, other investments, and any combination of these. IRA accounts are opened by individuals and closely monitored by the Internal Revenue Service (IRS).

Before investing money in a retirement plan, be sure you fully understand it. The more complex the plan, the more you should seek advice from a certified financial planner or similar expert. Depending on your investment choices, your savings may or may not be insured. Insured savings tend to grow at slower rates.

### 26-7

Saving for retirement while working will allow your money to grow over time.



## Your Reading

What factors should you consider when deciding to open a savings account?

## Avoiding Investment Fraud

People who sell fraudulent investments use lies and trickery to entice consumers to hand over money. Usually these investments promise large returns and claim to have little or no risk. Unfortunately, people who put money into these schemes usually lose their full investment. See 26-8 for some common fraud schemes focused on investments.

Some selling tactics that signal fraud include selling investments only through social groups or clubs frequented by older adults. Since people nearing retirement often have the largest accounts, they are the biggest targets. Keep in mind that professional-looking brochures, offices, or Web sites are no guarantee of a legitimate company.

To protect yourself from fraud, always take time to examine the investment. Make sure the seller and the investment itself are properly registered/licensed with the state securities regulator. Become acquainted with the many ways to invest by reviewing information from regulatory agencies. The foremost agencies are the Federal Trade Commission (FTC), the North American Securities Administration Association (NASAA), and the U.S. Securities and Exchange Commission (SEC). If you don't understand how a certain investment plan works, don't invest in it. Finally, seek advice from a certified financial expert or similar expert whenever you need it.



### Your Reading

What are some clues that an investment may be a fraud?

#### 26-8

Recognizing and avoiding fraudulent investments will protect your money.

#### Common Investment Scams

- Chain letters, brochures, or e-mails promising big rewards
- Foreign exchange trading
- “Great” investments that must be purchased immediately
- Internet services
- Investments available only over the phone
- Investments requiring checks made out to the salesperson
- No-risk business opportunities
- Offshore accounts
- Penny stocks
- Phone numbers with 900 codes
- Rare coins



## Summary

Saving money is an important part of a personal money management plan. However, the reasons people save vary widely. The ways people save also vary.

Before you choose a financial institution, make sure its deposits are insured. Also check its interest rates and services. A savings account is a common way to save.

You need to plan carefully before buying a certificate of deposit. It will earn a fixed rate of interest and your money will be tied up for a set period of time. A money market account is an alternative to a certificate of deposit. The rate of interest may go up or down. Money market accounts can have deposits at any time and a limited number of withdrawals.

Buying U.S. savings bonds is a safe and easy way to save. The bonds earn good rates of interest and help support the government. Other forms of savings for the long-term are mutual funds and annuities. Long-term savings should be part of your planned saving strategy.

It is important to start saving for retirement early in your career. Retirement savings grow by earning interest over long periods of time.

Staying informed and researching investment opportunities will protect you from becoming a victim of investment fraud.



## Reviewing Key Concepts

1. List five reasons for saving.
2. Which financial institutions are known as the department stores of finance?
3. Which financial institutions are primarily known for lending money to homebuyers?
4. Which financial institutions are owned by and operated for their members?
5. Which types of financial institutions are protected by FDIC? Which are protected by NCUA?
6. When both the principal and the earned interest continue to earn interest, that interest is known as \_\_\_\_\_.
7. True or false. Different financial institutions pay different rates of interest on savings accounts.
8. When you have a savings club account, what happens at the end of your savings period?
9. Why are U.S. savings bonds a safe way to save?
10. Which form of savings is linked to insurance?



## Building Academic Skills

1. **Art.** Design posters to illustrate reasons for saving. Display them throughout your school.
2. **Math.** If you deposit \$135 in your bank account and receive five percent interest per year, how much interest will you receive in three months if interest is accumulated quarterly? What will your investment be worth in one year?
3. **Speaking.** Ask a representative of a financial institution to talk to your class about ways to save.
4. **Speaking.** Research U.S. savings bonds to find out how they originated. Share your findings with the class in a brief oral report.
5. **Speaking, writing.** Visit or call two financial institutions in your area. Request information on their current interest rates for a one-year, \$1,000 CD. Also ask about the penalties for early withdrawal. Explain where you would buy the CD in a brief written report.

## Building Technology Skills

1. Play a money game by going to one of the following Web sites: [moneytalks.ucr.edu](http://moneytalks.ucr.edu), [younginvestor.com/teens](http://younginvestor.com/teens), or [practicalmoneyskills.com/english/resources/games](http://practicalmoneyskills.com/english/resources/games). After playing, write a paragraph about what you learned.
2. Visit one of the following Web sites: [kidsbank.com](http://kidsbank.com), [yacenter.org](http://yacenter.org), or [smithbarney.com/yin/home.htm](http://smithbarney.com/yin/home.htm). Review the resources available on budgeting, saving, or investing. Calculate a savings plan for money you earn, such as an allowance. Adjust it for inflation, and determine its total in five years.

3. Use a software program to create a flyer on how to fill out a deposit slip for a savings account. Make the flyers colorful and post them around the school in an effort to encourage students to save money.
4. Conduct an Internet search to see how many savings clubs, such as holiday or vacation savings clubs, are available at local financial institutions. List the names of the savings clubs and write a one-sentence summary about each type of plan. Share your findings with the class.

## Building Career Knowledge and Skills

1. Research the career opportunities available at financial institutions. What job skills are needed? Summarize your findings in one or two paragraphs.
2. Develop a slide show presentation on certificates of deposit, money market accounts, and U.S. savings bonds. Imagine you represent the financial institution offering these options to consumers. In a presentation, summarize the advantages of these investment options.

## Building Workplace Skills

Visit two financial institutions in your area, checking the types of accounts that are available for students your age. Work with two or three classmates on this activity. Check the requirements, penalties, fees, and other obligations for each account. Also check the convenience, location, and banking hours of each institution. In which account would your money grow fastest? After finding answers to all the questions, determine where your team would prefer to bank. Explain why in a brief report to the class.