

# Learning for Earning

Your Route to Success

Sixth Edition



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*PowerPoint Presentations for*

# Learning for Earning

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**CHAPTER**

**26**

# **Savings**



# Chapter Objectives

After studying this chapter, you will be able to

- determine reasons for saving.
- list three types of financial institutions that offer savings accounts and the agencies that insure them.
- explain the various ways to save.
- list reasons for buying U.S. savings bonds.
- identify ways to protect yourself against investment fraud.

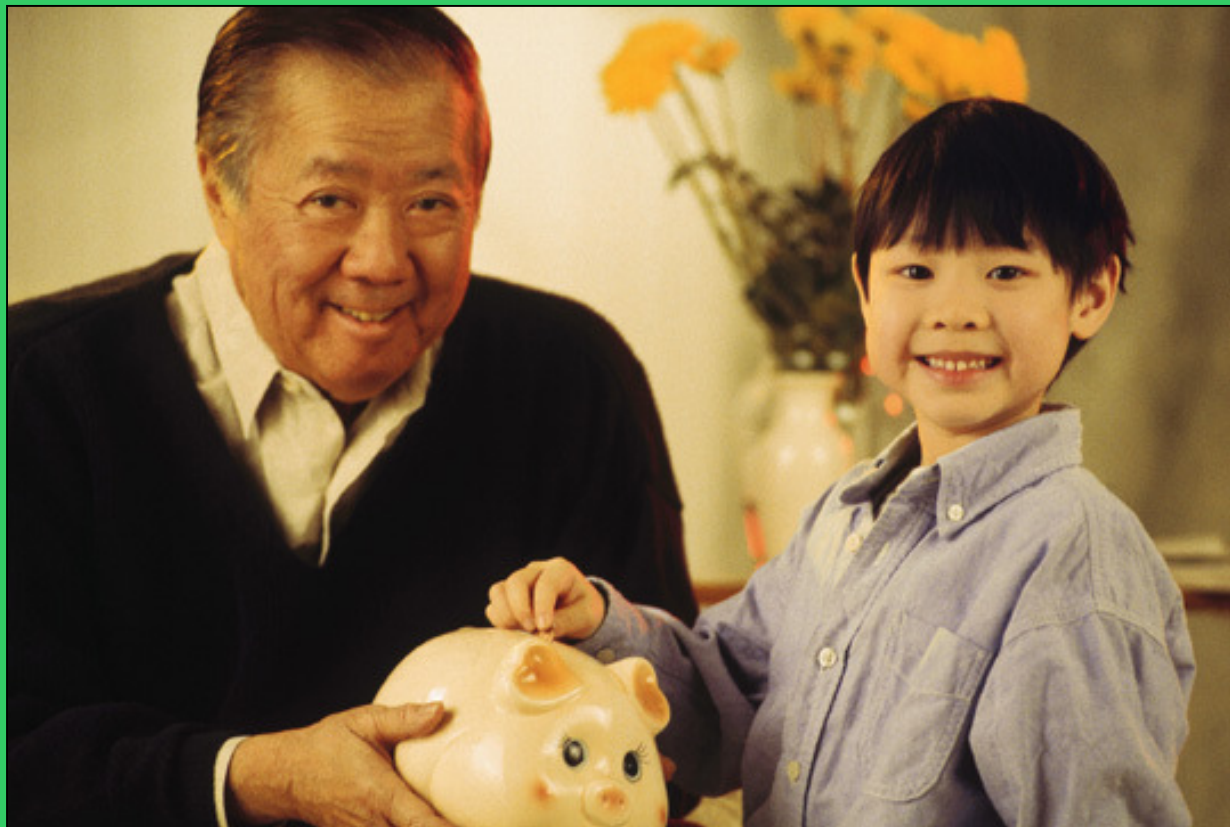


# Key Terms

- 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

# Reasons for Saving

- Saving money is an important component of personal money management.





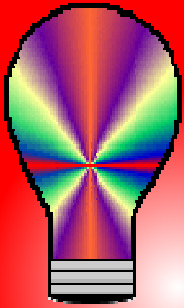
# Reasons for Saving

- You should try to save a portion of each paycheck. The more you make, the more you should save for
  - emergencies
  - major purchases
  - retirement
  - travel/recreation
  - education
  - financial security



# Where to Save

- You can open a savings account at a
  - commercial bank
  - savings bank
  - Internet bank
  - credit union
- Savings banks, Internet banks, and credit unions may offer higher rates of interest on savings accounts.



# Think About It

- ❖ *Briefly describe the three types of financial institutions.*
  - ❖ *Commercial banks offer services to individuals and corporations.*
  - ❖ *Savings banks serve small businesses and individuals.*
  - ❖ *Internet banks provide banking services online only.*
  - ❖ *Credit unions serve certain groups of people such as employee groups.*





# Will Your Savings Be Safe?

- Before you open a savings account, verify that it will be insured.
- *Federal Deposit Insurance Corporation* (FDIC) protects deposits in commercial and savings banks.
- *National Credit Association Union* (NCUA) protects deposits in most credit unions.
- The bank should display *FDIC* or *NCUA*.

# Ways to Save

- Discuss savings options at the bank with customer service representatives.
- The most common savings plans include
  - savings accounts
  - savings clubs
  - certificates of deposit
  - U.S. savings bonds

# Savings Accounts

- With a *regular savings account*, you make deposits and withdrawals at any time.
- A monthly or quarterly statement will show all deposits and withdrawals.
- Your savings will earn interest.
- ***Interest*** – The money paid to customers for allowing a financial institution to have and use their money.

# Savings Accounts

- Interest is paid in one of these ways:
  - daily
  - quarterly
  - semiannually
  - annually
- Interest increases when money stays in the account longer.





# Did You Know?

- ❖ *The word for "interest" in ancient Sumerian and ancient Greek was the same as the word for "calf."*
- ❖ *If a herd of cattle was loaned to someone, it was assumed the number of cattle would increase after a year.*
- ❖ *The borrowers were expected to pay a share of the new calves to the herd's owner as interest.*

Source: <http://www.historyforkids.org/learn/economy/usury.htm>

# Savings Accounts

- As interest is added to the account, it earns interest just as the original deposit does.
- ***Principal*** – A savings account deposit.
- ***Compound interest*** – Interest figured on the principal plus the earned interest of a financial account.

# Savings Accounts

- ***Annual percentage yield (APY)*** – The rate (or percent) of yearly earnings from an account
  - Other names for the APY are *annual yield*, *interest rate*, and *rate of return*.
- When comparing savings accounts, look for the APY.



# Opening a Savings Account

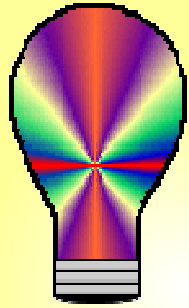
- Different institutions pay different rates.
- Shop around for the account that pays the highest interest rates for the type of account you want.
- You can choose to have a savings account in one bank and a checking account in another.



# Comparing Fees

- Some banks charge a fee for opening a savings account or require you to maintain a minimum balance.
- Some banks may offer special programs for students or minors.





# Think About It

- ❖ *Which factors would you consider most important when deciding where to open a savings account?*
- ❖ *Which factors would you consider least important?*

# Making a Deposit

- When depositing money in person, you must fill out a savings deposit form.

SAVINGS DEPOSIT		
ACCOUNT NO.	<u>29-3689865</u>	
NAME	<u>La Tonya Roberts</u>	
DATE	<u>May 25</u>	
SIGN HERE ONLY IF CASH RECEIVED FROM DEPOSIT		
FINANCIAL INSTITUTION		
YOUR CITY, U.S.A. 12345		
ALL THESE ITEMS ARE ACCEPTED SUBJECT TO OUR RULES AND REGULATIONS APPLICABLE TO THIS ACCOUNT.		

CURRENCY	26	00
COIN	3	42
CHECKS	LIST CHECKS SINGLY	87 50
		2 00
TOTAL FROM OTHER SIDE		
<b>SUB-TOTAL</b>	<b>118</b>	<b>92</b>
LESS CASH RECEIVED		
<b>Total Deposit</b>	<b>118</b>	<b>92</b>

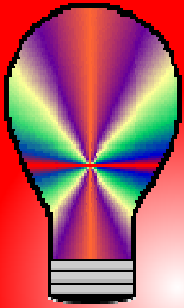
USE OTHER SIDE FOR ADDITIONAL LISTING

BE SURE EACH ITEM IS PROPERLY ENDORSED



# Using Direct Deposit

- ***Direct deposit*** – Program that allows an employer to deposit a paycheck directly into an employee's account.
- You can split your deposit into one or more existing accounts by completing a form provided by your employer.
- To withdraw money, you generally need to fill out a special form.



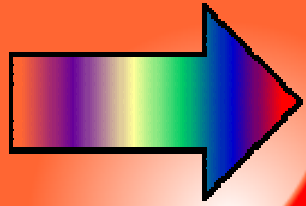
# Think About It

- ❖ *What should you do if you notice an error on your paycheck stub after a direct deposit has been processed?*
  - ❖ ***Notify your employer.***
- ❖ *What should you do if you notice an error on your account statement after making a deposit with a teller?*
  - ❖ ***Notify the bank.***



# Savings Clubs

- A savings club encourages you to get into a habit of saving money.
- ***Savings club*** – A savings plan into which a set amount of money is deposited regularly until a savings goal is reached.
- Many people use savings clubs to save money for holiday gifts or special purchases.



# In Your Opinion

- ❖ *What are some other reasons to join a savings club?*



# Certificates of Deposit

- ***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.
- CDs generally earn a higher rate of interest than any savings account.
- Savings periods range from 31 days to several years, but there is a penalty for early withdrawal.



# Money Market Accounts

- ***Money market account*** – A type of savings account that is similar to a CD, but has no time restrictions.
- Money market accounts pay interest at a rate higher than savings accounts, but lower than CDs.
- The account also permits check-writing privileges.

# U.S. Savings Bonds

- ***U.S. savings bond*** – A certificate of debt issued by the federal government that serves as a safe way to save money.
- Reasons for choosing savings bonds include
  - *safety*, since the bonds can be replaced
  - *convenience*, since they are easily purchased
  - *higher interest rates* than other savings options

# U.S. Savings Bonds

- *Patriotism* is another reason for buying U.S. savings bonds, since the money goes into the Treasury.





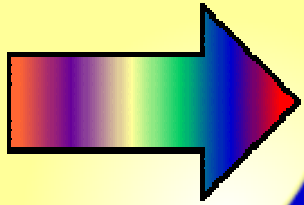
# Mutual Funds

- ***Mutual fund*** – A long-term investment that provides a way to invest in stocks and bonds.
- Unlike a checking or savings account, the government does not insure mutual funds, whose value can rise or fall with the stock market.
- Buying them may involve extra fees.



# Annuities

- Annuities are often used for investing for retirement or future security.
- ***Annuity*** – A form of investment that lasts 10 or 15 years and provides insurance as well as savings.
- If the owner dies, benefits are paid like life insurance.



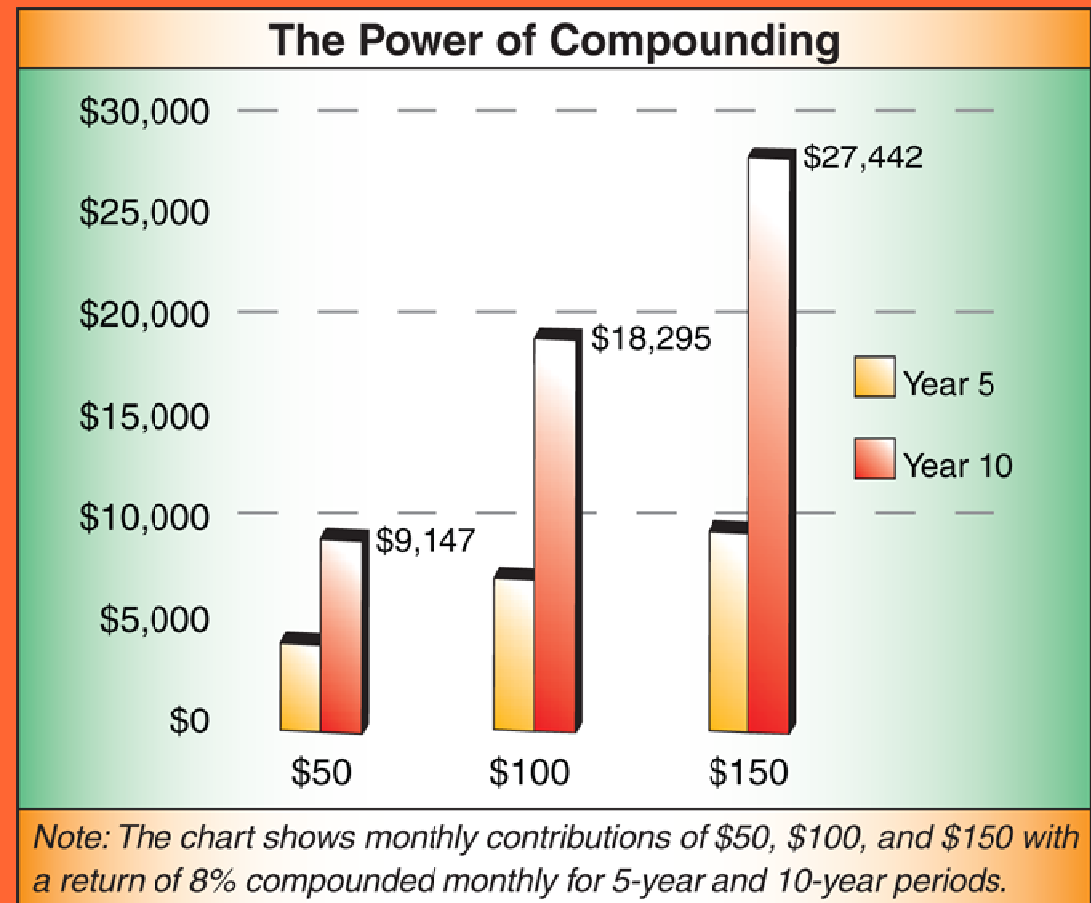
# In Your Opinion

- ❖ *When, if ever, do you think people should make investments that offer the possibility of high rewards, but present the risk of losing all their money?*



# Retirement Accounts

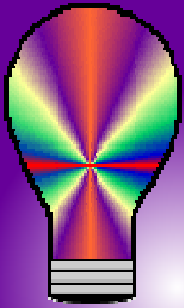
- Starting to save for retirement early will allow your money to benefit from the power of compounding.



# Avoiding Investment Fraud

- To protect yourself from investment fraud, take the following precautions:
  - take time to examine your investment
  - make sure the seller and the investment are registered with the state securities regulator
  - don't invest if you don't understand how the investment works
  - seek advice from a certified financial planner or similar expert if needed





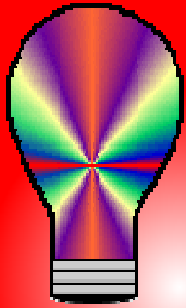
# Think About It

- ❖ *Explain how to open savings accounts and which agencies insure them.*
- ❖ *Identify the advantages of saving through*
  - ❖ *a savings club*
  - ❖ *certificates of deposit*
  - ❖ *money market accounts*
  - ❖ *U.S. savings bonds*
  - ❖ *mutual funds*
  - ❖ *annuities*



# Chapter 26: In the Know

- Savings accounts at financial institutions vary according to fees, requirements, and interest rates.
- Your money is insured if you see either of these terms (*FDIC, NCUA*).
- U.S. savings bonds are a safe investment.
- Mutual funds and annuities are long-term investments that are riskier, but may provide greater returns than safer forms of savings.



## Chapter 26: Think More About It

- ❖ *Do you think you are saving enough money considering your goals?*
- ❖ *What are some ways for you to save more money?*
- ❖ *What are the savings options available to you through your local financial institutions? Considering rates, fees, and other factors, which option seems best for you?*
- ❖ *How would you invest \$10,000?*