

Skills for Living

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Topic 18-2

Saving for the Future

- In this topic, you will learn about saving money to prepare for the unexpected, as well as
 - ❖ **Why save?**
 - ❖ **Factors in deciding how to save**
 - ❖ **Savings accounts**
 - ❖ **Decisions about securities**
 - ❖ **Planning an estate**

Saving for the Future

Objectives for Topic 18-2

After studying this topic, you will be able to

- explain why it is important to save money
- list five factors to consider when deciding how to save
- describe various types of savings accounts
- determine why people need to plan their estates

Topic 18-2 Terms

- ❖ liquidity
- ❖ certificate of deposit
- ❖ securities
- ❖ stock
- ❖ dividend
- ❖ bond
- ❖ mutual fund
- ❖ portfolio
- ❖ diversified
- ❖ estate
- ❖ will

Why Save?

- Money will be available for
 - ❖ future wants and needs
 - ❖ meeting long-term goals
 - ❖ an emergency fund
 - ❖ retirement



Factors in Deciding How to Save

- Safety—protection against loss
- Rate of return—interest rates
- *Liquidity*—the degree to which you will be able to get cash quickly
- Purchasing power—protection against inflation
- Convenience—nearness to home or work

Savings Accounts

- Regular savings accounts allow deposits and withdrawals in any amount at any time
- A *certificate of deposit*, also known as a CD, pays a set rate of interest on money that is deposited for a set period of time

Decisions About Securities

- ***Securities*** are proof of debt or ownership of a company or government
- Securities include
 - ❖ stocks
 - ❖ bonds
 - ❖ mutual funds



Why Invest in Securities?

- The average annual increase in value of securities is greater than the interest rates on savings accounts
- Securities offset the effects of inflation better than savings accounts do
- Purchasing securities is a way to participate in the growth of the U.S. economy

Stocks

- *Stocks* are certificates that represent ownership of a small portion of a company
- *Dividends* are distributions of a company's profits to stockholders
 - ❖ The company makes money by selling stock
 - ❖ The stockholder makes money if the company is profitable

Bonds

- ***Bonds*** are certificates that represent a promise from a company or government to repay a loan on a given date
 - ❖ Corporate bonds cover the costs of expansion
 - ❖ Government bonds can be bought for half their face value, but must be held until the maturity date for full value

Mutual Funds

- *Mutual funds* are groups of investments purchased by a company representing many investors
- A *portfolio* is a group of securities purchased by a mutual fund for an investor
- The investment is *diversified*, or invested in many different stocks and bonds so that increases in some offset decreases in others

401k Retirement Plans

- A *401k retirement plan* is offered by some employers
- The employer sets up a trust, a legal entity that holds assets benefiting more than one person
 - ❖ Full-time employees can contribute money from their paychecks to save funds for retirement

Individual Retirement Accounts (IRA)



- An *individual retirement account (IRA)* is another investing tool
 - ❖ You invest money into the account, and the interest compounds over time

Planning an Estate



- An *estate* is what a person leaves behind when she or he dies
- A *will* is a legal document describing how a person wants property to be distributed after his or her death

Did You Know...

- If you don't make a will or use some other legal method to transfer your property when you die, state law will determine what happens to your property

Summary for Topic 18-2

- Having money in savings can help you prepare for the unexpected as well as meet goals
- Your saving options can range from regular savings accounts and CDs to stocks, bonds, and mutual funds
- When deciding how to save, you will want to consider safety, rate of return, liquidity, purchasing power, and convenience
- Preparing a will enables your wishes to be observed regarding the distribution of your estate