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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

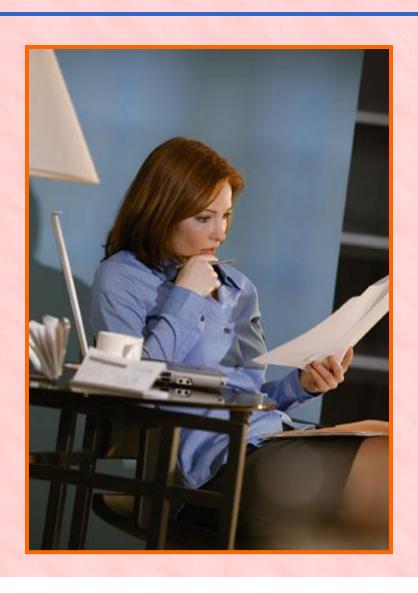
- A 401k retirement plan is offered by some employers
- The employer sets up a trust, a legal entity that holds assets benefiting more than one person
 - * Full-time employees can contribute money from their paychecks to save funds for retirement

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