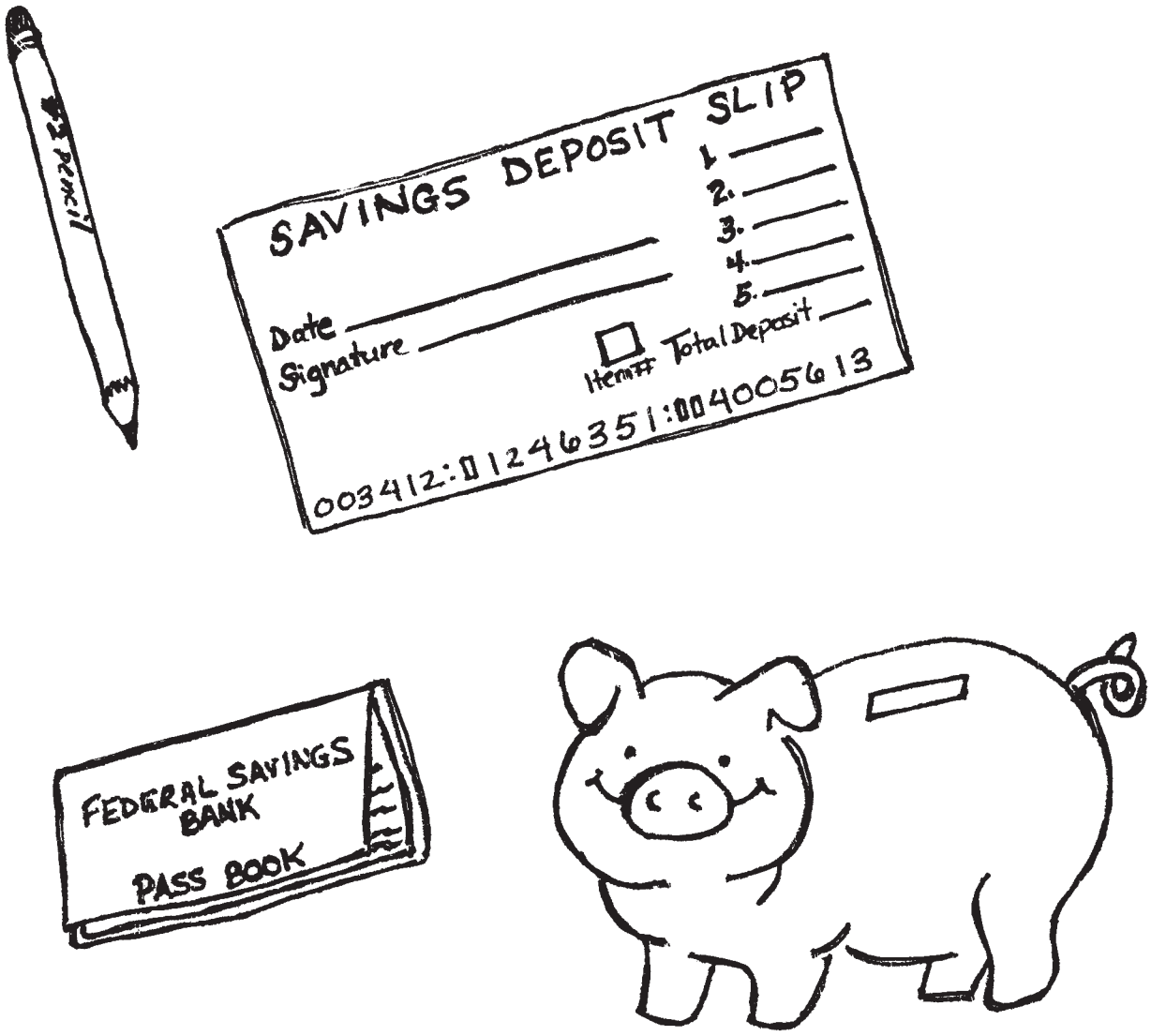
Saving



For individuals, **saving** is the part of one's income that is <u>not</u> spent. People often place their savings in banks and credit unions, which in turn lend the money to businesses and other individuals. Sometimes people use their savings to purchase financial securities, such as stocks or bonds. It is important to save regularly, especially for things like education, retirement, and financial emergencies.

Questions About Savings

1. Why do you think it is important for people to save? *(Saving helps us purchase expensive things, such as education, home, or car. To live comfortably after retirement requires saving. Also, emergencies arise and it helps to have savings!)*
2. Instead of saving for expensive items, what do people often do to purchase them? *(borrow).* How can this sometimes be a problem? *(People borrow too much and can't repay their debt.)*
3. What are some ways or places people use to save their money? *(banks and credit unions, purchases of stock or bonds, under the mattress!)* Why is "under the mattress" generally not a good idea? *(no interest or return on your savings, could get stolen, inflation erodes the value of your savings)*
4. Give examples of short-term and long-term savings goals. *(Short-term: family vacation, bicycle, summer camp, car repair, etc. Long-term: retirement, college)*
5. Banks often loan people's savings to businesses. How does this help the economy? *(Businesses use the money to expand by purchasing capital equipment or hiring workers. Businesses must pay the bank interest on borrowed money.)*

Other Activities and Questions for Your Students

1. Discuss interest. Explain that banks try to earn a profit by loaning people's savings to businesses and consumers. Explain compound interest. *(interest earned on one's savings and previous interest payments. One earns "interest on interest." This helps savings to grow more quickly.)* Use the "Interesting Interest Rates" worksheet to research different interest rates. *(Answers to questions: a. Rates are different, but don't vary too widely because banks must remain competitive. b. Banks make money on the spread between savings rates and rates on loans. c. One reason is that used cars have less collateral value. Newer cars are easier to sell if the bank has to repossess them for loan non-payment.)*

2. List and define these words: interest, certificate of deposit, loan, collateral, secured loan, mortgage, APR, profit, bond, checking account, ATM, credit card.

3. Complete the "Interest"ing Math Problems!" Worksheet. *(Answers: 1. $10 2. $102 + $103 = $205 3. $1 4.a. 5/100 = 1/20 b. 35/100 = 7/20 c. 75/100 = ? d. 80/100 = 4/5 e. 95/100 = 19/20 f. 125/100 = 5/4 = 1 1/4) 5. $128 6. $30, $50 7. Answers will vary. The savings account is less risky, but earns less interest. The bond is more risky, but has a higher interest rate.)*

4. Learn banking basics at www.kidsbank.com.

Literature Connection: See Appendix A for children's literature lessons.

Interesting Interest Rates

Financial institutions encourage people to save by offering interest on savings. They loan these savings to businesses and consumers. Banks compete with one another to attract savers and borrowers. The goal of the bank, like any business, is to make a profit.

Directions: Research the interest rates offered by banks and credit unions in your community. Also, search the web (e.g. www.bankrate.com) to find the interest rates offered by other financial institutions. Compare and contrast your findings.

	Bank 1	Bank 2	Bank 3
Savings Rates:			
Passbook Savings	_____	_____	_____
Checking Account	_____	_____	_____
Certificate of Deposit			
6 month	_____	_____	_____
1 year	_____	_____	_____
2 year	_____	_____	_____
Other	_____	_____	_____
Loan Rates:			
Auto loans			
New	_____	_____	_____
Used	_____	_____	_____
Unsecured loan	_____	_____	_____
Home (mortgage)	_____	_____	_____
Home equity loan	_____	_____	_____
Other	_____	_____	_____

a. Are the rates the same at different banks? Why or why not? _____

_____

b. Why are the savings rates generally lower than loan rates? _____

_____

c. Why are used car rates higher than new car rates? _____

_____

"Interest"ing Math Problems

Interest is what savers earn from banks on their savings accounts and what borrowers pay to banks to borrow money. If a person earns 4 percent (%) a year on a savings account, this means that $100 will grow to $104. If a person borrows $100 for one year at 6%, then he or she owes $106 to repay the loan. Banks earn a profit by lending at interest rates higher than they pay on savings accounts.

1. Sarah put $200 into a savings account that paid 5% interest per year. How much money would she have at the end of the year? _____

2. Alice and Sherika each put $100 into savings accounts. Alice earned 2% on her account, but Sherika earned 3%. At the end of the year how much did they both have all together in their savings accounts? _____

3. In 2. above, how much more did Sherika have than Alice? _____

4. Interest and Fractions: When using "percents," we say that 100% = 1 whole of something; 50% = ?, etc. In the blanks below, write the fraction that equals the percentage. Write the fraction in simplest form. (i.e. 6/10 = 3/5)

   a. 5% = _____ b. 35% = _____ c. 75% = _____

   d. 80% = _____ e. 95% = _____ f. 125% = _____

5. Jarod's Dad had three loans from the bank! He borrowed $600 at 8% interest. He borrowed $1,000 at 6% interest. And he had a $400 loan at 5% interest. At the end of the year how much interest did he have to pay the bank for all three loans?
   _____

6. When you loan your money to a company, the company sometimes gives you a bond, a security that pays you interest each year. (A bond is basically an I.O.U.) How much money each year would you earn from a $1000 McDonald's bond that pays 3% interest? _____ What if it paid 5% interest ? _____

7. Bonds are riskier than a savings account because the company could go bankrupt and you could lose the interest as well as the entire $1,000! Suppose you had $1,000 to invest. Would you put it in a savings account that earns 3% interest, or buy a McDonald's bond that pays 7%. Explain you reasoning!