

# Financial Literacy - Money Trek

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MODULE 5 - SAVING & INVESTING

PREPARED BY: FINANCIAL LITERACY COMMITTEE, AAUW  
CALIFORNIA

# Objectives

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- Identify ways to save money.
- Understand why it is important to save.
- Determine which savings options will help you to reach your savings goals.
- Determine goals toward which you want to save.
- Identify and understand various savings and investing options.



# Pay Yourself First

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“The Golden Rule of Saving”

When you get your paycheck, put some of that money into a savings account before you pay your bills.



# Interest

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Interest is:

- An amount of money banks or other financial institution pay you for keeping money on deposit with them.
- Expressed as a percentage.



# Compound Interest

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- Money you earn on the “previously paid” interest in your account.
- Can be compounded daily, monthly, or annually.



# Saving \$1 a Day

	No Interest	5% Daily Compounding
<b>Year 1</b>	<b>\$365</b>	<b>\$374</b>
<b>Year 5</b>	<b>\$1,825</b>	<b>\$2,073</b>
<b>Year 10</b>	<b>\$3,650</b>	<b>\$4,735</b>
<b>Year 30</b>	<b>\$10,950</b>	<b>\$25,415</b>

# Saving \$5 a Day

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	No Interest	5% Daily Compounding
<b>Year 1</b>	<b>\$1,825</b>	<b>\$1,871</b>
<b>Year 5</b>	<b>\$9,125</b>	<b>\$10,366</b>
<b>Year 10</b>	<b>\$18,250</b>	<b>\$23,677</b>
<b>Year 30</b>	<b>\$54,750</b>	<b>\$127,077</b>

# Pay yourself first –it adds up!

Save this each week ... at 5% interest ...

in 10 years you'll have

\$7.00	5%	\$4,720
\$ 14.00	5%	\$9,440
\$ 21.00	5%	\$14,160
\$ 28.00	5%	\$18,880
\$ 35.00	5%	\$23,600



You can buy ... one less fast food Meal or save \$7.00 this week.

You can buy ... two small cheese pizzas or one large pepperoni pizza, delivered or one new CD or save \$14.00 this week.

What can you give up to save for your financial goals?

# Ways to Save

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- Put money under your mattress or in a cookie jar.
- Open a checking account.
- Open a savings account.
- Buy an investment – mutual fund, stocks or bonds.



# Mattress/Cookie Jar Option

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## Advantages

- Money is close and easy to retrieve.

## Disadvantages

- Does not earn interest.
- Not very safe.



# Savings Account

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- Earns interest.
- Gives you easy access to your money.
- Provides safety because it is federally insured.



# Savings Products

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- Savings account
- Money Market account
- Certificate of deposit (CD):
  - Offer higher interest rates than savings accounts
  - No risk
  - Simple
  - No fees
  - Restricted access to your money
  - Early withdrawal penalty



# Investments

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- Long-term savings options purchased for future income or financial benefit.
- Are NOT federally insured.
- Are riskier than deposit accounts.
- Usually give you a higher rate of return than deposit accounts.



# Investment Products

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- Bonds
- Stocks
- Mutual funds
- Retirement accounts



# Stocks

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- Stock represents ownership of a corporation.
- Stockholders own a share of the company and are entitled to a share of the profits.

## **Advantages**

- If the market value goes up, the gain can be considerable.
- Money is easily accessible.

## **Disadvantages**

- If market value goes down, the loss can be considerable.
- Selecting and managing stock often requires study and the help of a good brokerage firm.

# Bonds

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- A bond is an “IOU,” certifying that you loaned money to an entity and outlining the terms of repayment.

## **Corporate**

- Sold by private companies to raise money.

## **Municipal**

- Issued by any non-federal government entity.
- Interest paid comes from taxes or revenues.
- Interest is exempt from federal income tax.

## **Federal government**

- The safest investment you can make.
- Even if U.S. government goes bankrupt, it is obligated to repay bonds.

# Mutual Funds

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**Professionally managed portfolios made up of stocks, bonds, and/or other investments.**

- Individuals buy shares in the mutual fund, which buys collections of stocks, bonds, and other investments.
- Profits are returned to shareholders in the form of dividends.



# Mutual Funds

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## Advantages

- Allows small investors to take advantage of professional account management and diversification normally only available to large investors.
- Allows access to professional money managers.
- There are numerous choices available to meet individual needs.



# Mutual Funds

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## Disadvantages

- The value of the fund may go down and the loss can be considerable.
- You must pay a fund management fee which decreases the amount of your earnings<sup>c</sup>
- Needs constant follow up.



# Retirement Plans / Accounts

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Plans that help individuals set aside money to be used after they retire.

- Federal income tax not immediately due on money put into a retirement account, or on the interest it makes.
- Income tax paid when money is withdrawn.
- Penalty charges apply if money is withdrawn before retirement age, except under certain circumstances.
- Income after retirement is usually lower, so the tax rate is lower.



# Retirement Plans / Accounts

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**IRA** - Allows a person to contribute pre-tax earnings each per year. Must begin taking distributions at age 70.

**Roth IRA** - Allows a person to contribute after-tax dollars, with no taxes on earnings. No requirement to take distributions.

**401(k)** - Allows a person to contribute to a savings plan from his or her pre-tax earnings, reducing the amount of tax that must be paid.

***Employer may match contributions  
up to a certain level.***

# Comparing Savings and Investment Plans

<b>Instrument</b>	<b>Maturity</b>	<b>Risk</b>	<b>Yield</b>	<b>Minimum Balance</b>	<b>Taxable?</b>
<b>Savings Account</b>	Immediate	None if insured	Low	\$5	Yes
<b>Certificate of Deposit</b>	90 days or more	None if insured	Moderate	Varies	Yes
<b>Bonds</b>					
- Corporate	5–30 years	Some	Moderate	\$1,000	Yes
- Municipal	1–20 years	Some	Moderate	\$5,000	No federal, & some states
<b>Stocks</b>	Immediate	Low to high	Low to high	Varies	Yes
<b>US Treasury</b>					
- Bills	1 year or less	None	Moderate	\$10,000	Federal only
- Notes	1–10 years	None		\$1,000	Federal only
- Bonds	10–30 years	None		\$1,000	Federal only
<b>Mutual Funds</b>	Varies	Low to high	Moderate	Varies	Usually
<b>Retirement Funds</b>	When buyer is 60 years old	Low	Moderate	Varies	At maturity

# Decision Factors

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How much do you want to accumulate?

- How much must you save each month?
- What interest rate should you get?

How long can you leave your money invested?

- The longer you have, the more risk you can take.

How do you feel about risking your money?

- Be sure you can tolerate the risk.



# Create a Plan

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- Set your financial goals.
- Calculate how much you can save.
- Determine which investments are right for you.

