## TOPIC CONNECTIONS:

Connects with ***Money Smart*** curriculum in the classroom: Lesson 2 (Financial Planning), Lesson 4 (Importance of Savings), Lesson 5 (Choosing a Banking Partner), Lesson 12 (College and Student Loans), Lesson 13 (Understanding the Economy), Lesson 14 (Financial Markets and Investing), and Lesson 15 (Retirement Planning).

## TOPIC OVERVIEW:

Saving and investing are important parts of the financial puzzle. Putting the pieces in place at a young age helps build financial stability long into the future. By selecting strong banking partners, growing savings habits, and thinking long-term with investments, the riddle of financial saving isn't so puzzling after all.

## FROM THE CLASSROOM:

***How do you create a financial plan?*** You create a financial plan by first writing down your values and financial goals. The next step is to write down a budget that includes details of your income and expenses. Weigh both your needs and wants, and limit your expenses when you need to stick to your budget. This will help you to manage the pressure of buying and spending impulsively.

***How do you know the difference between a need and a want?*** A need is something you must have to live, like food and shelter. A want is something that you don't need to survive but something you would like to have, like two new pairs of shoes, an expensive cell phone, or a TV.

***Where should you save money?*** How much money should you save? A savings account allows you to make deposits and earn interest on your money. While interest rates in savings accounts aren't as high as investment products, they are more secure because they are federally insured. This means that, even if a bank closes, you are guaranteed to keep your money.

***How do you save enough money for college?*** Making a savings plan as early as possible is the best way to maximize the time your money has to grow. Building savings habits such as having a set amount of money automatically deposited into a savings account from your earnings is a helpful strategy to build long-term savings for college. In addition to saving, college costs can also be covered through scholarships, grants, and federal financial aid.

***Why do you save and invest money? How is investing different from savings?***
People save and invest money to achieve goals, to have a feeling of security, to be prepared for financial emergencies, to maintain self-esteem, and to have control over their financial future. When you deposit money into a savings account at a federally insured financial institution, your money is safe because it protected up to the federal limits (at least $250,000 per depositor per insured institution) if the bank fails. Investments such as stocks, bonds and mutual funds can produce higher returns than bank deposits over many years, but you could also lose some or all of that money. (Non-deposit investments are not insured by the FDIC against loss.) In general, the longer you plan to keep money invested and the greater your tolerance for volatility (the value of your investment going up and down), the more likely these investments can help you reach your targets.

***What can you invest in to grow your money?*** Some people invest their money in real estate by buying and selling properties. Others invest in securities such as stocks and bonds either directly or by purchasing shares in a mutual fund. For a complete list of investment vehicles, visit Investor.gov at **http://www.investor.gov/investing-basics/investment-products#.VCnPtWRdVNu**.

***What are insured financial institutions?*** Both banks and credit unions receive from the state or federal government a charter that permits them to operate. They can then accept deposits and make loans. Each is periodically examined by a regulatory agency. The Federal Deposit Insurance Corporation (FDIC) protects your insured deposits in banks and savings associations. The National Credit Union Administration (NCUA) protects your insured deposits in federal credit unions and in the majority of state-chartered credit unions. The FDIC and NCUA are each independent agencies of the United States government.

***What is the difference between a credit union and a bank?*** A credit union is a not-for-profit cooperative organization that is owned and run by its members. In order to open an account or borrow money from a credit union, you need to be a member of a credit union. Each credit union decides who can become a member. A bank is a for-profit business owned by investors or others. In many cases, those who own a bank may own shares of stock in the bank. These shareholders then elect a board of directors that governs the bank.

## WORDS TO KNOW:

**Bank:** A financial institution and business that accepts deposits, makes loans, and handles other financial transactions.

**Checking Account:** A deposit account at a financial institution that allows consumers to make deposits, pay bills, and make withdrawals. Money that is in a checking account is very liquid, meaning it can be easily accessed.

**Compound Interest:** The interest paid on principal and previously earned interest.

**Credit Union:** A not-for-profit financial institution owned by its members and represented by a volunteer board of directors who are elected by the membership. To become a member, you must meet the credit union's field of membership requirements and open a share account.

**Federal Deposit Insurance Corporation (FDIC):** Preserves and promotes public confidence in the U.S. financial system by insuring deposits in banks and thrift institutions for at least $250,000. An independent agency of the federal government, the FDIC was created in 1933 in response to the thousands of bank failures that occurred in the 1920s and early 1930s. Since the start of FDIC insurance on January 1, 1934, no depositor has lost a single cent of insured funds as a result of a failure.

**Financial Aid:** Award(s) to individuals to help pay for education expenses.

**Financial Planning:** Identifying a person's financial goals, needs, and expected earning, saving, investing, insurance, and debt management activities.

**Interest:** Money that a bank or other financial institution pays you for keeping money on deposit with them, or the amount of money you pay a bank as a fee when you borrow money. You can earn interest from a bank (such as when you keep money in a saving account) or pay interest (such as when you borrow money).

**Invest:** To put money at risk with the goal of making a profit (return) in the future.

**Investment:** Using money or time in a way that you expect will bring you a return or increase in value.

**Investment Vehicle:** The type or methods that a person (or business) can use to invest money.

**Need:** Something you must have to survive, such as clothes, shelter, or food.

**Save:** To set something, like money, aside to use in the future.

**Savings Account:** A bank account that you can use to set aside money, and that pays you interest.

**Stock:** An investment that represents a share of ownership in a company.

**Want:** Something that you would like to have but that you could live without, such as a TV or tickets to a baseball game.

## CONVERSATION STARTERS...ASK YOUR TEEN:

- **If you received a gift of $5,000, what would you do with it, and why?**
- **What are goals you have for yourself and your future? What will you need to do in order to reach those goals?**
- **How much money do you think you will need when you retire?**
- **What do you think defines a need as opposed to a want?**

## WHAT IF MY TEEN WANTS TO...:

***What if my teen wants to open a bank account?*** Consider opening a savings account first and assessing how your teen handles saving his or her money. If you feel your teen is actively depositing money, you may consider opening a checking account next to help your teen practice balancing income and expenses and maintaining a check register. Young adults will inevitably make errors in judgment and overspend from time to time, but it is better to have them experience those learning curves while at home and to use them as teachable moments so that, when they are ready to leave the nest, they are equipped to balance saving and spending.

***What if my teen wants to go to college?*** There's no doubt that a college education can be costly, but according to U.S. Census Bureau data, someone with a college degree can earn, on average, 60 percent more than a person with only a high school diploma. Start planning and saving for college as early as possible. Before you (or your child) take out a loan for education purposes, make full use of all free student aid (scholarships or grants). Go to **www.StudentAid.gov** to learn more about how to make college more affordable and options for financing higher education. Determining the return on investment (ROI) of a college major and school selection is also helpful in deciding which college to attend and what degree to pursue. The College ROI Report offers an easy way to compare ROI on different degree and school choices at **http://www.payscale.com/college-roi/**.

***What if my teen wants to spend, not save?*** Young adults have typically not yet developed the skills for delayed gratification and self-discipline in saving. For example: electronics, clothes, and even cars are some of the items that can tempt young people to spend money rather than work toward their savings goal. But guiding your teen in establishing savings habits now helps build lifelong savings. One way to do this is to work together with your teen to help set and reach a financial goal. For example: if he or she wants a new phone, help your teen figure out how much it will cost and how long it will take to earn enough money to buy it. Setting a concrete goal and mapping out how to reach that goal shows teens that we can't just spend, spend, spend—we have to weigh our spending choices carefully and earn enough money first in order to buy something we want.

***What if my teen wants to buy a stock?*** Exploring the stock market can be a great introduction to the world of investing. Stocks represent direct ownership in a business. Shares are available on the major exchanges, such as the NASDAQ and New York Stock Exchange (NYSE). Investors buy stocks for various reasons. These include the hope that they can sell the stock for more money than they purchased it and for dividend payments, which come when the company distributes some of its earnings to stockholders. Historically, stocks have outperformed bonds and other fixed-income investments.

Bonds are "IOU" investments that have a promise to pay predictable income. They are issued by governments, government agencies, corporations, and other entities to raise money for their operations, products, and services. Bonds are issued at a fixed rate, face value, and maturity. They are rated based on the financial strength of the issuing entity by bond-rating agencies.

Another investment security is mutual funds. Mutual funds represent a pool of stocks and bonds. When you invest in a mutual fund, you gain indirect ownership in bonds or stock of companies included in the mutual fund. If your teen has set aside a certain amount of money to invest, help him or her research companies and products that he or she uses and what it would cost to buy a share. You may also consider setting up an appointment to visit a financial advisor, who can help teach your teen how the stock market works, how to pick a stock, and how to follow it to analyze performance. If you feel your teen is not ready to invest with real money, you can still engage him or her in the process of the stock market through an online simulation, such as the Stock Market Game by SIFMA Foundation at **http://www.stockmarketgame.org/**. For more information on investing, visit **www.investor.gov**.

## FAMILY ACTIVITIES:

**Bank Visit:** Take your teen to the bank with you. Show him or her how to fill out a deposit and withdrawal slip and to use the ATM machine. If possible, arrange a meeting with a bank representative to discuss different savings and checking account options, and explore setting up a savings account for your teen if she or he doesn't already have one.

**Saving Habits:** Talk to your teen about your own saving habits, such as if you contribute to a retirement account, put aside a set amount of dollars each month or year, or have automatic savings through direct deposit to a savings account.

**Family Budget:** Create a family budget by making a list of family expenses and working together to label them as a needs or wants. Create a budget with all of the need-related expenses and then see which "wants" could also fit into the budget.

**Family Values:** Talk to your teen about your family values and identify together what is most important for your family, such as having a home, education, or career choices.

**Family Goal:** Set a family goal, such as saving up for a new television or going to an amusement park for a day, and create a family plan to save enough money to reach the family goal. Consider different savings strategies, such as putting a set percentage of all earned income into a special savings account dedicated to the family goal.

**Take a Pledge:** Join other families and be a part of America Saves, an initiative created to help you review your savings goals. Take the Pledge to Save and assess your savings progress at **http://www.americasaves.org/**.

## RESOURCES:

### ARTICLES:

- *For Everyday Banking: Choosing the Best Account for You* by the Federal Deposit Insurance Corporation: Explore tips for young adults on how to find a bank account and avoid common pitfalls like overdraft fees. **https://www.fdic.gov/consumers/consumer/news/cnfall12/yourbankaccount.html**
- *Simple Ways to Rev Up Your Savings* by the Federal Deposit Insurance Corporation: Read simple tips for how to create savings habits. **https://www.fdic.gov/consumers/consumer/news/cnfall12/savings.html**
- *Compound Interest: The Most Powerful Force in the Universe?* by Allan Roth, CBS News: Read about how compound interest works its magic on money. **http://www.cbsnews.com/news/compound-interest-the-most-powerful-force-in-the-universe/**
- *Why Invest?* by Investor.gov: Read about the reasons to invest money and the power of compound interest. **http://www.investor.gov/introduction-markets/why-invest#.VCnM92RdVNs**
- *Investment Products* by Investor.gov: Learn the basics of different investment products, from bonds to certificates of deposit (CDs) and stocks. **http://www.investor.gov/investing-basics/investment-products#.VCnPtWRdVNu**
- *The Secret to Saving for Retirement When You Have Nothing Saved at All* by Donna Rosato, Time.com: Read about steps to take today in order to start saving for tomorrow. **http://time.com/money/3222252/retirement-strategy-when-nothing-saved/**

### ONLINE TOOLS:

- *Compound Interest Calculator* by Investor.gov: Calculate how much your money can grow with this online calculator. **http://www.investor.gov/tools/calculators/compound-interest-calculator#.VCnBxGRdVNt**
- *My Social Security* by the Social Security Administration: Plan for the future by creating a free “My Social Security” account to track your earnings and get an estimate of your future benefits. **http://www.ssa.gov/myaccount/**
- *myRA* by U.S. Department of Treasury: This program offers an affordable way to save for retirement through the U.S. Treasury. **http://www.treasurydirect.gov/readysavegrow/**
- *Retirement Calculator* by the Financial Industry Regulatory Authority: Plan your investing strategy for long-term retirement savings with this calculator. **http://apps.finra.org/Investor_Information/Calculators/1/RetirementCalc.aspx**

- *Make My Plan* by Feed the Pig, American Institution of Certified Public Accountants: Make a plan for your future by creating short-, medium-, and long-term goals. **http://www.feedthepig.org/what-do-you-want-to-do#.VCwE7ildVNs**
- *College ROI Report* by PayScale: Calculate your return on investment for different college degrees and universities. **http://www.payscale.com/college-roi/**
- *College Board* by The College Board: Use this comprehensive website to research and plan for college. **https://www.collegeboard.org/**
- *Pocket Cents* by My Credit Union.gov: Helpful tips for youth, tweens, teens, young adults, and parents on life, money, and building your future. **http://www.mycreditunion.gov/Pages/pocket-cents-home.aspx**
- *What Is a Credit Union* by the National Credit Union Administration and MyCreditUnion.gov. This web page is developed by the independent federal agency that regulates, charters, and supervises federal credit unions. It provides consumers with information on credit unions. It also includes tools (such as an interactive game) to teach teens and young adults about money. **http://www.mycreditunion.gov/Pages/whats-a-credit-union.aspx**
- *Banking Basics* by the Federal Reserve Bank of Boston. A web resource that highlights what a bank is, account types, how deposits work, electronic banking, and more. **http://www.bostonfed.org/education/pubs/banking2.pdf**

## GAMES/APPS:

- *The Stock Market Game* by The SIFMA Foundation: Learn the basics of investing in this simulation game. **http://www.stockmarketgame.org/**
- *Countdown to Retirement* by VISA: Make choices about housing, transportation, and other common expenses to see how it affects your road to retirement. **http://www.practicalmoneyskills.com/games/countdown/countdown.html**
- *The Truth About Millionaires* by The Mint.org, Northwestern Mutual: Take this short quiz to test your knowledge of what it means to be a millionaire. **http://www.themint.org/teens/the-truth-about-millionaires.html**
- *When Will You Be a Millionaire?* by The Mint.org, Northwestern Mutual: How long will it take to become a millionaire? Answer that question by making different choices in this simulation. **http://www.themint.org/teens/when-will-you-be-a-millionaire.html**
- *Bite Nightclub* by Financial Entertainment: Run a vampire nightclub while planning for retirement in this online game. **http://financialentertainment.org/play/biteclub.html**