

Week 2 – Saving

6th Grade – 8th Grade Education

April is National Financial Literacy Month, which is designed to create awareness about the importance of personal financial education. Over the next 4 weeks, we will be exploring different financial education topics with specific age-minded activities and links, designed for your use at home.

This week's topic is Saving Money. It's never too early to teach your teens about saving money. The activities provided in this document will allow teens to explore ways to save money and the importance of saving money. Saving money helps all of us set goals and teaches the importance of earning interest on our money. Included in this document are tips, activities and worksheets that you can share with your teen to teach them the importance of saving their money.

Save: Putting money away for future use. Saving is the opposite of spending.

5 Saving Tricks for Teens

Trick #1: Pay yourself first!

Trick #2: Set a saving goal. Have your teen save for something they want.

Trick #3: Have your teen keep track of the items that they spent their money on. Look through the expenses with them and see if together you can find ways to reduce their spending and save more.

Trick #4: Determine what expenses your teen is responsible for (cell phone, snacks, clothes etc.) and encourage them to set up a separate savings account for these monthly expenses.

Trick #5: Talk to your teen about being a smart shopper and watch for sales. Tell them they can save more money if they wait for the items they want to go on sale.

Online lesson with worksheet

Growing Money – Compound Interest

<https://www.stlouisfed.org/education/no-frills-money-skills-video-series/episode-1-growing-money-compound-interest>



No-Frills Money Skills Video Series

Episode 1: Growing Money—Compound Interest (7:21)



View Episode 1 at <https://www.stlouisfed.org/education/no-frills-money-skills-video-series/episode-1-growing-money-compound-interest>.

1. In what way is an interest rate like a price?

An interest rate is like a price because the higher (or lower) the interest rate, the higher (or lower) the amount you must pay to borrow money. An interest rate tells borrowers what percentage of the amount borrowed they must pay for a loan and lenders what percentage of the amount loaned they will earn for providing the loan. The amount paid (or charged) for a loan is called interest. Interest is added to the amount borrowed. So, a borrower must repay the loan amount borrowed plus the interest.

2. What is the general relationship between risk and potential reward when investing?

In general, the higher the risk of loss of principal for an investment, the greater the potential reward, and, conversely, the lower the risk of loss of principal for an investment, the lower the potential reward. To attract buyers, the seller of a potentially risky investment must offer a higher return than the buyer could potentially earn on a less-risky investment. In other words, when the risk of potential loss is high, people expect greater returns; when the risk of potential loss is lower, people are willing to accept lower returns.

3. Why is it so important to understand and take advantage of compound interest?

When you earn compound interest, you earn money on the principal and on all of the interest you have earned along the way. The earlier you start saving, the more you will earn over time on the previously earned interest, so saving for a longer period can help your savings grow substantially and more quickly.

4. Explain the opportunity cost of waiting to start a savings account and spending the money instead.

The opportunity cost of waiting to start a savings account and spending the money now is that you will not have money to spend later and you will not earn the extra money—the compound interest—that would have been earned with a savings account.

5. If you have a savings account and a goal for how much money you want to save, what three factors will affect whether you meet your goal?

- The amount of money you save on a regular basis (e.g., per pay period or monthly)
- The interest rate
- Time—when you start saving and how long you save

6. What does it mean to “pay yourself first”?

To pay yourself first means to put money in savings before spending it on anything else. So, for example, when you receive a paycheck, the first thing you do is put some money in a savings account. In this way, you give saving the same importance as paying a bill.

7. What is direct deposit and how can it help you save?

A direct deposit is an electronic transaction in which money is deposited directly into a payee’s bank account from a payer’s bank account. You can use direct deposit to have your employer deposit money directly to a savings account. A direct deposit helps you save because you “pay yourself first,” so money is set aside before you spend it on anything else.

 **BUILDING BLOCKS STUDENT WORKSHEET**

Creating a savings first aid kit

Unexpected financial emergencies, such as car repairs or medical bills, can be difficult to manage. Having savings set aside can help you establish a savings first aid kit to handle financial emergencies.

Instructions

1. Brainstorm unexpected expenses that you or someone you know might face.
2. Answer the question for each expense to decide if it's really a financial emergency.
3. Identify things you're willing to give up in order to build a savings first aid kit.
4. Create a savings plan to build your savings first aid kit.

Understanding financial emergencies

Not all unexpected expenses are financial emergencies. When managing money, it's helpful to understand the difference. Financial emergencies are expenses that come up unexpectedly, are very important, and need attention right away.

Make a list of unexpected expenses	Determine if it's an emergency Is it unexpected, necessary (a need rather than a want), and urgent?

One rule to live by for people who are financially independent (pay their own bills) is to have a savings account with three to six months' worth of expenses. These savings can be used to pay for financial emergencies. Even if you aren't financially independent (you still rely on your family or others to take care of your living expenses), you can create your own savings first aid kit so you're ready for these unexpected expenses. But saving money requires planning, goal setting, and discipline.

Spend less to save money

One way to save money is to spend less. Identify three non-essential expenses you're willing to give up so you can build a savings first aid kit. Calculate how much you could save over time.

Expenses you can give up	Estimated monthly amount saved by eliminating expenses
1.	\$
2.	\$
3.	\$
How much would you save in a month?	\$
How much would that be in three months?	\$
How much would that be in six months?	\$
How much would that be in a year?	\$

Create a savings plan

A savings account at a bank or credit union is a secure place to store your savings first aid kit. Answer the questions below to create a savings plan.

- Where will you store your savings first aid kit?
- How often will you make a deposit?
- How will you do this? Do you have a job where you can have part of your paycheck automatically deposited into your savings account?
- Whom do you need to help you?

Describe your plan below.

 **BUILDING BLOCKS STUDENT WORKSHEET**

Saving each payday

Saving money is a step toward financial well-being. No matter how much you earn, you can get into the habit of saving part of each paycheck. Doing this helps you steadily build your savings so you can afford big purchases or cover unexpected expenses.

Instructions

1. Read through the work scenario below.
2. Calculate how long it would take to save for a car if you were to save 20 percent of your net income.
3. Answer the reflection questions.

Work scenario

You've been hired as an assistant manager for a new movie theater. For this full-time job, you'll earn an annual salary of \$37,000. Your first day of work is January 1, and you're paid bimonthly, on the 14th and 28th of each month (or the Friday before, if those dates fall on the weekend). Deductions from your paycheck (for example, taxes and Social Security) are 30 percent of your gross (total) income.

You still live with your parents. The theater is a 45-minute commute by bus, so you want to buy a car once you can save enough money. You've seen several cars that meet your needs that cost \$4,500.

BUILDING A SAVINGS FUND ONE PAYDAY AT A TIME

Calculations	My answer	Tips and background information
How much do I earn each payday?	\$	Your \$37,000 salary is paid bimonthly.
What is my "take-home pay" each payday (also called net income)?	\$	Your deductions are 30 percent of your total pay. Deductions are subtracted from your total pay.
How much can I save each payday?	\$	For this activity, as a rule to live by, try saving 20 percent of your net income. What would this be each payday?
How many months will it take to save for a car?		Divide your savings goal (\$4,500) by how much you'll save each payday. Then figure out how much you'll save each month.

Reflection questions: Saving as a financial habit

1. How does the time it takes to reach your savings goal change if you save more or less than 20 percent? At minimum, explore what happens when you save 10 percent and 30 percent.

2. How does saving more or less than 20 percent change the money you have left over for other expenses?

3. What might be a good savings rule to live by for your situation? How did you decide on that percentage?

4. What plan could you put in place to reach your savings goals? How could you keep yourself motivated to stick to your plan? List some ideas.

5. What are some things you can do to increase the percentage you're able to save? List some ideas.

Measuring student learning

This answer guide provides possible answers for the “Saving each payday” worksheet.

Answer guide

BUILDING A SAVINGS FUND ONE PAYDAY AT A TIME

Calculations	My answer	How to solve this
How much do I earn each payday?	\$1,541.67	$\$37,000 / 24 \text{ paydays (2 per month)}$
What is my “take-home pay” each payday (also called net income)?	\$1,079.17	$\$1,541.67 \times 30\% = \462.50 $\$1,541.67 \text{ (total pay)} - \$462.50 \text{ (deductions)} = \$1,079.17 \text{ (net)}$
How much can I save each payday?	\$215.83	$\$1,079.17 \times 20\% = \215.83
How many months will it take to save for a car?	About 10½ months	$\$4,500 / \$215.83 = 20.85 \text{ paydays}$ $20.85 / 2 \text{ (paydays per month)} = 10.425 \text{ months}$ This is almost a year of work

Reflection questions

Students’ responses to the discussion questions will help you assess how well they understand the concepts in this activity and can inform your planning and instruction for future activities.

Keep in mind that students’ answers may vary. The important thing is for students to have reasonable justification for their answers.