

Choose to Save

Advanced Level



TAKE CHARGE TODAY

Financial Education for a Better Future

**TAKE
CHARGE
AMERICA**  **Institute**
For Consumer Financial Education and Research

What is Saving?

Saving –

accumulation of excess funds by intentionally spending less than you earn

Results
in

Savings –

portion of income not spent on **consumption** (purchase of goods and services)

Why Save?

Your present self impacts your future self

By saving money today you will have financial security in the future

Emergency savings

Cash set aside to cover the cost of unexpected events

Short-term goals & expenses

- Pay for items that aren't part of a typical spending plan

Financial security

- Lower stress
- Lower negative emotions



What are examples of emergency expenses?

Saving Reduces Financial Risk and Uncertainty

Savings is a monetary asset
Contributes to net worth

Very liquid (can quickly and easily be converted into cash)

Statement of Financial Position for:	
Date:	
Assets	
Monetary assets	
Cash on hand	
Value of checking account and savings account	
Other:	
<i>Subtotal of monetary assets</i>	\$
Tangible Assets	
Market value of home	
Market value of household furnishings	
Market value of automobile	
Market value of electronics	
Market value of clothing	
Other:	
<i>Subtotal of tangible assets</i>	\$
Investment Assets	
Value of investments	
Other:	
<i>Subtotal of investment assets</i>	\$
Total Assets	\$
Liabilities	
Home mortgage balance	
Installment loan balance for automobile	
Student loan balance	
Credit card balance	
Money owed to others	
Other:	
Total Liabilities	\$
Net Worth = Total Assets - Total Liabilities	\$



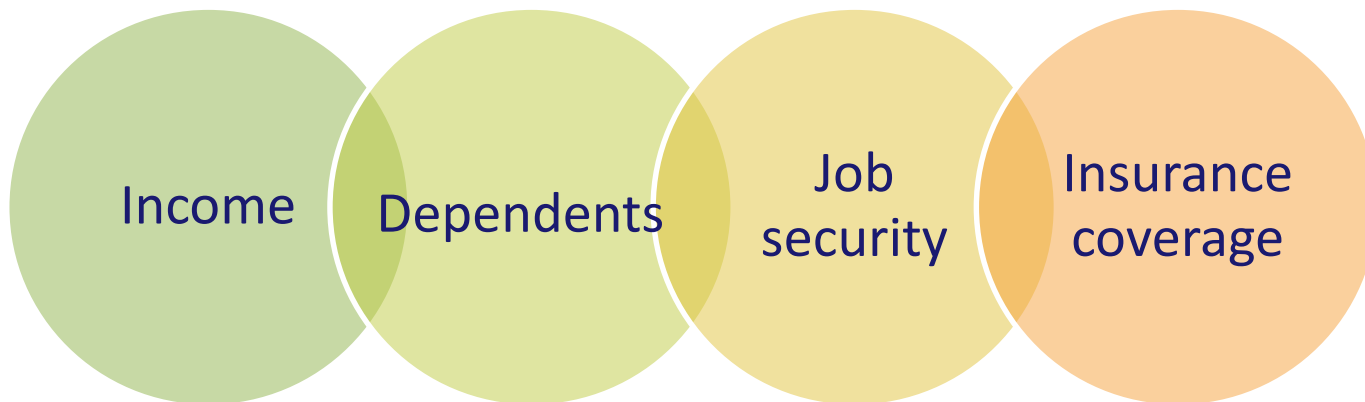
What monetary assets do you have for emergencies?

How Much Money Should Be Saved?

At least six months worth of expenses in emergency savings



Depends on...



Saving on an Income & Expense Statement

Saving is a form of unearned income when used to pay for an expense

Saving is an expense when money is being saved

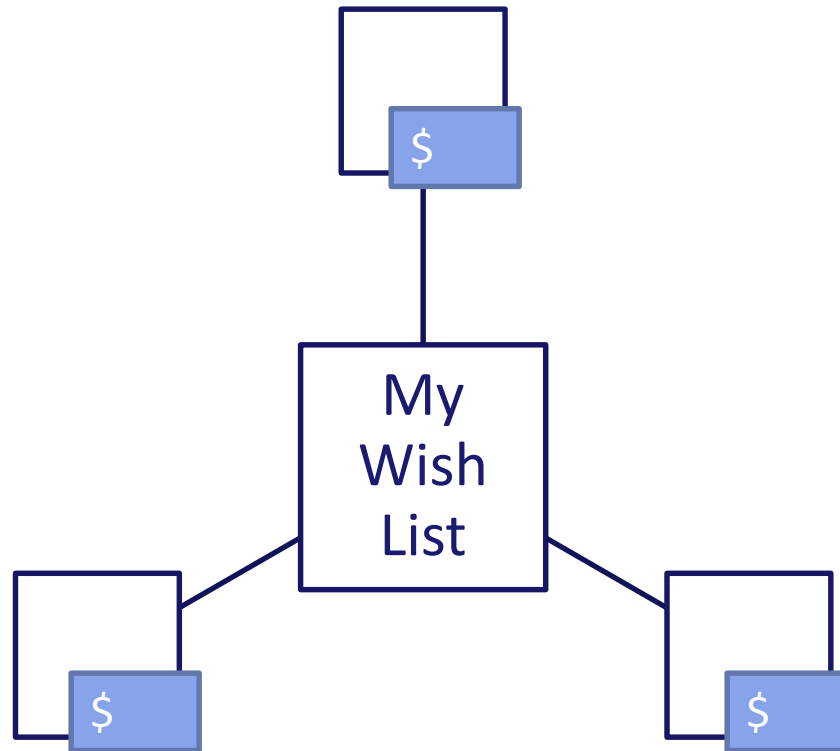
Income and Expense Statement for:	
Time Period:	
	Amount
Income	
Earned Income	
Wages or salary before deductions	
Unearned Income	
Interest earned this time period	
Money from savings and investments to help pay expenses during this time period	
Received Income from Government Programs	
Total Income	\$
Expenses	
Deductions Often Taken from Paychecks	
Contributions to retirement programs (401k, 403b, pension, IRA)	
Federal income tax and state income tax	
Social Security and Medicare	
Saving and Investing (Pay Yourself First)	
Contribution to savings and investments	
Insurance Premiums	
Health, automobile, home or renters, life	
Housing Costs	
Transportation Costs	
Food Costs	
Family Member Care	
Communication and Computers	
Telephone landline, cell phone, Internet, cable/satellite television	
Medical Costs Not Covered by Insurance	
Clothing and Personal Care	
Educational Expenses	
Pet Care	
Entertainment	
Gifts and Charitable Contributions	
Credit Costs	
Student loan, credit card, other loan payments	
Total Expenses	\$
Net Gain or Net Loss (Income less Expenses)	\$

My Saving Quest

Part 1: My Wish List



Brainstorm a personal wish list for yourself

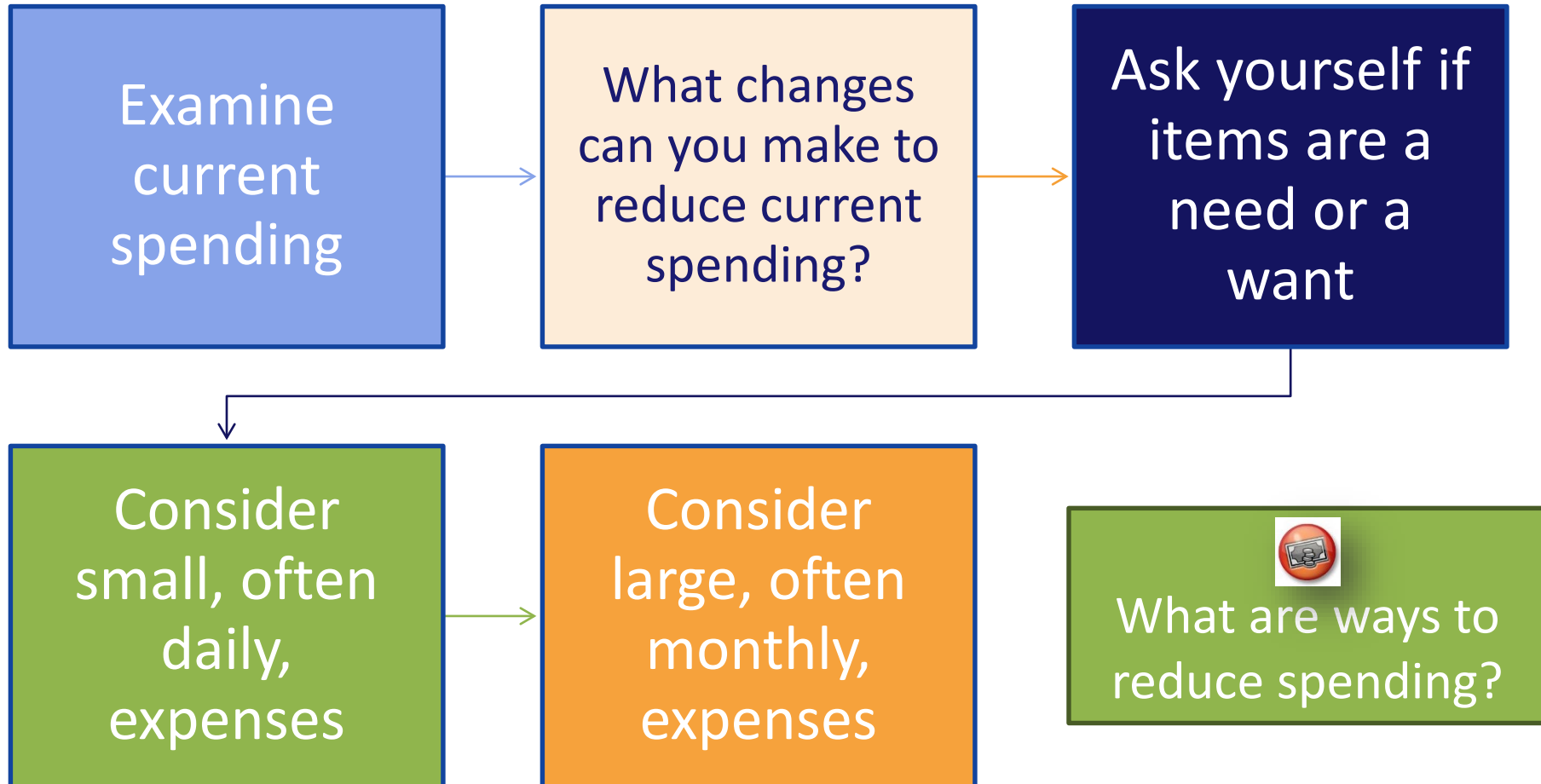


Approximately how much does each item cost?



Place a star ★ next to the item you would like to start saving for today

Identifying Money to Save



Identifying Money to Save



Do It Yourself

Instead of paying someone



Trade-off



Investing time and skills

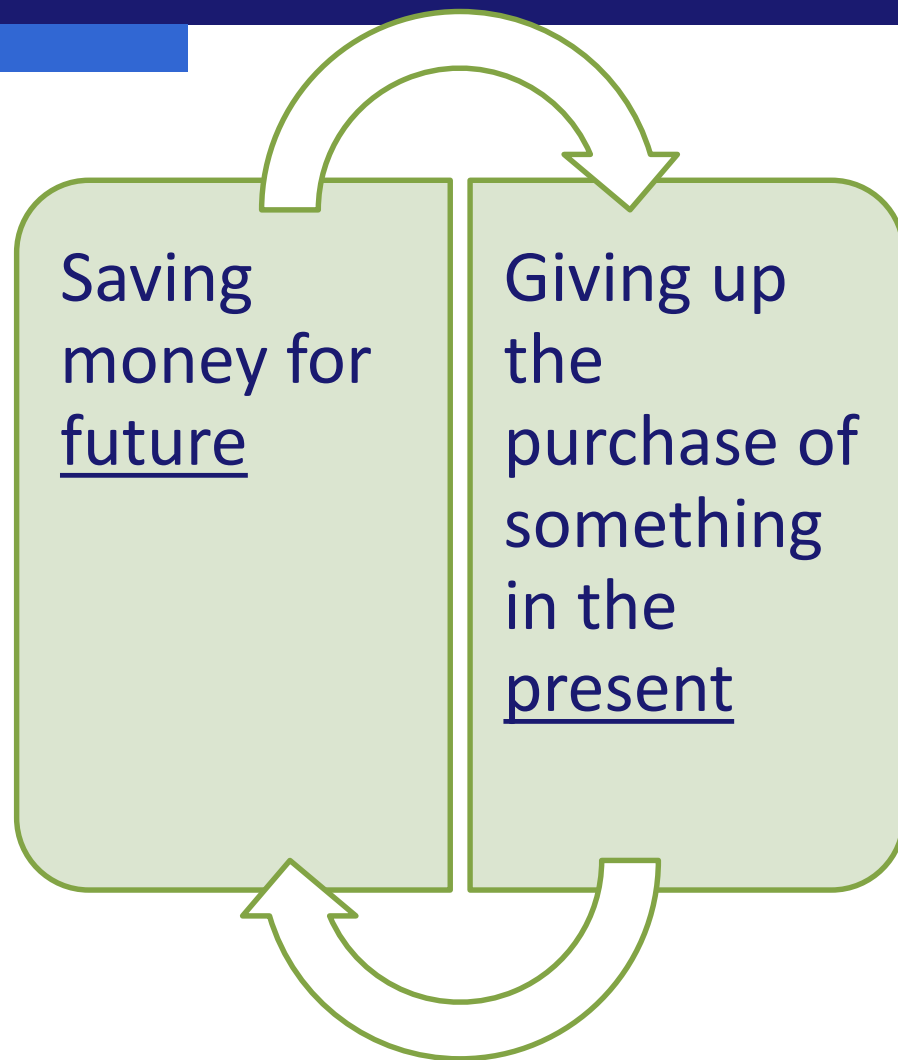


What can you do yourself to save money?

Create a Savings Plan



Make Sure Your Goal is Realistic!



Ensure the trade-offs are realistic and opportunity cost of what is given up to save is not too high!

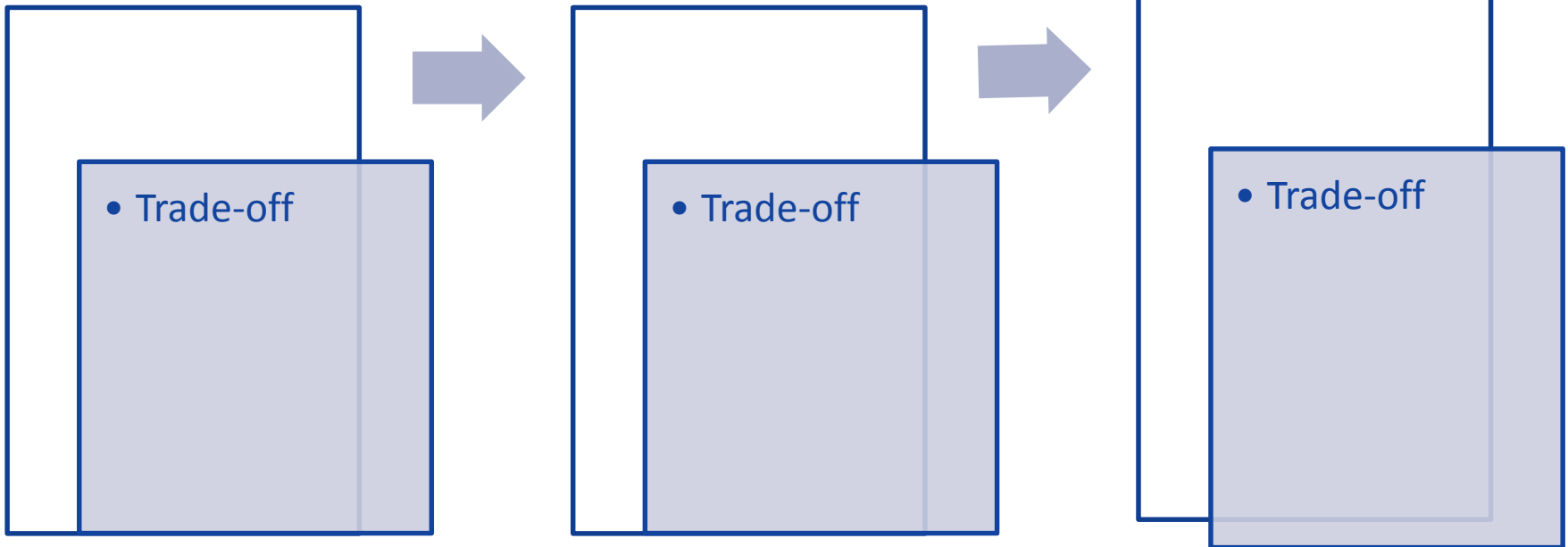


My Saving Quest

Part 2: My Current Spending



Identify three changes you will make to your current income or spending today to start saving for the future



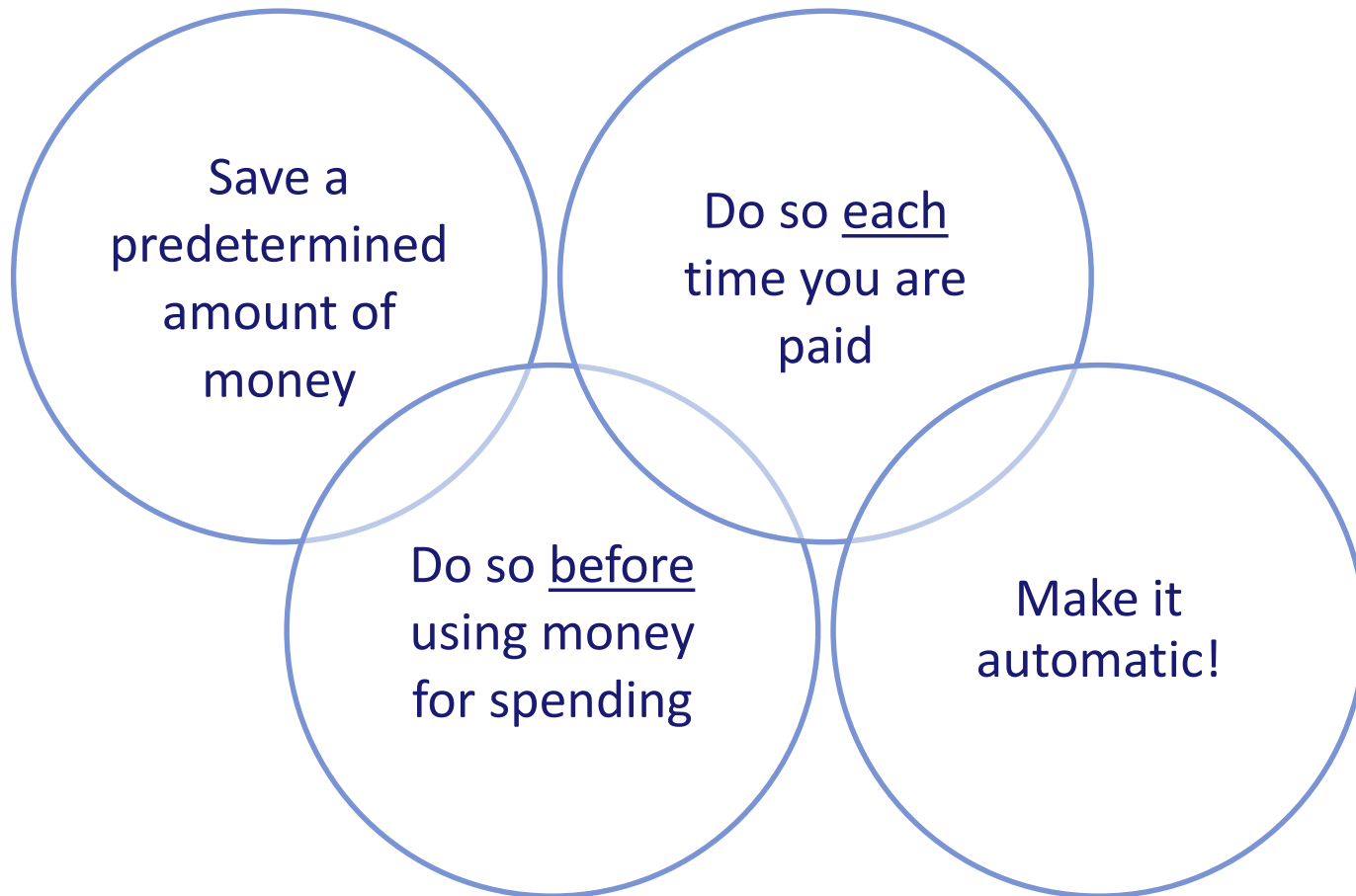
What is the trade-off for each change?



Place a star ★ next to items with a realistic opportunity cost

Pay Yourself First

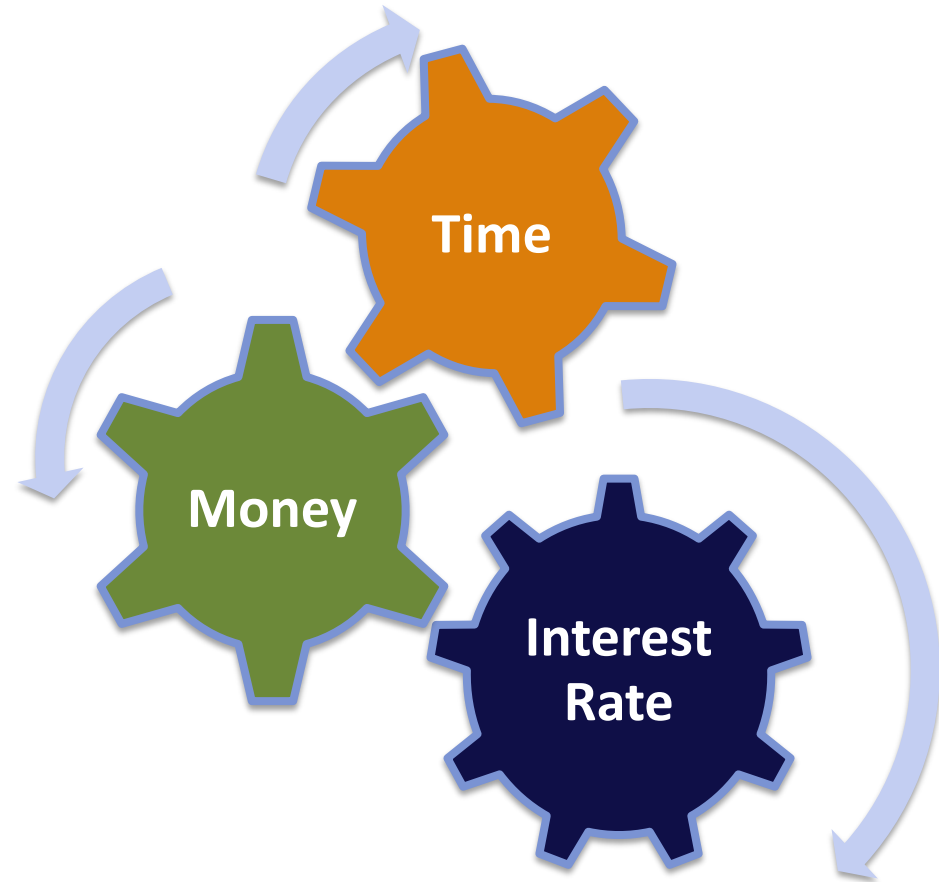
Your present self impacts you future self!



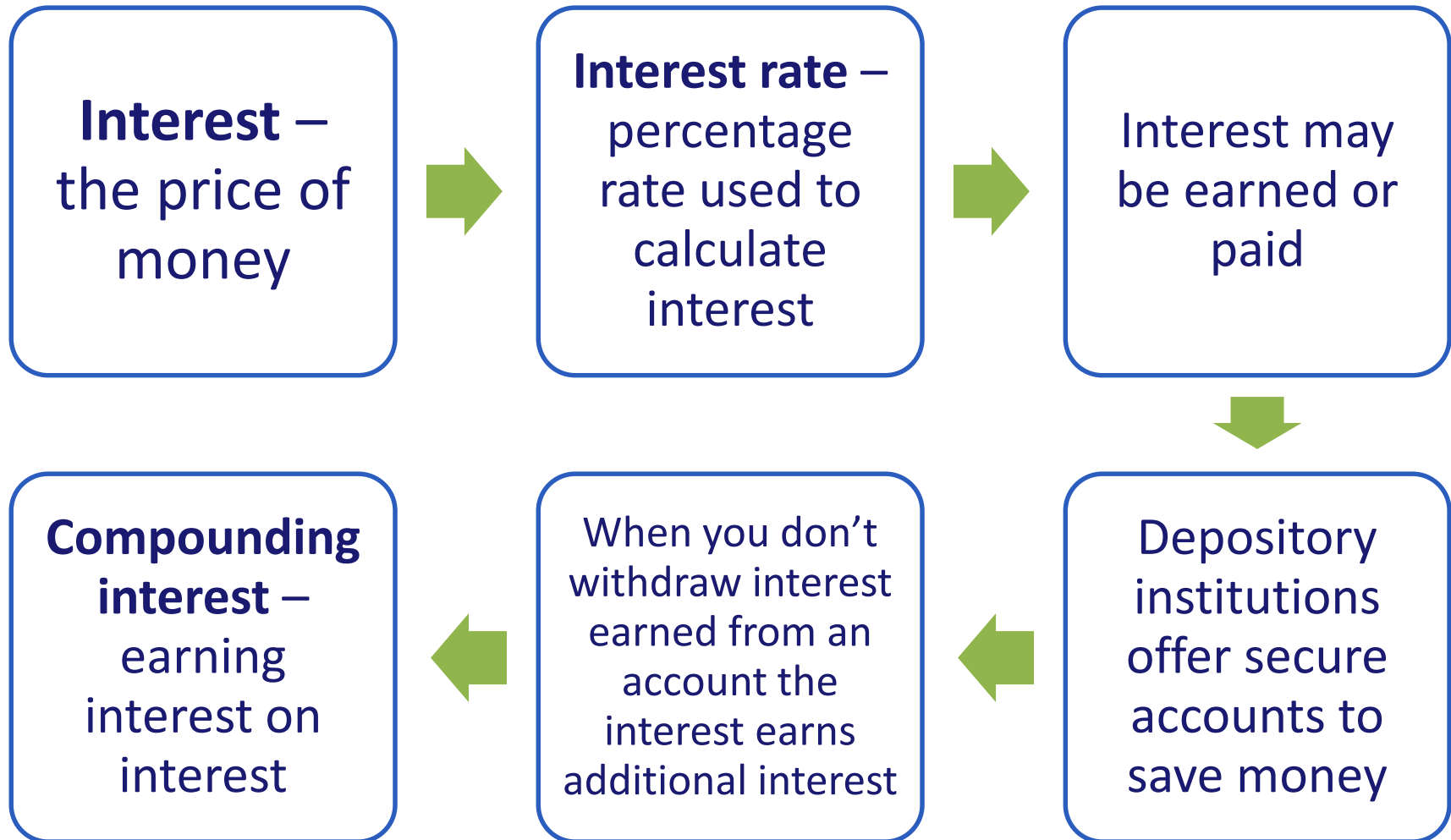
Saved Money Provides For Your Future Self....

... and can increase in value!

Time Value of Money - money available at the present time (today) is worth more than the same amount if received in the future



What is Interest?



How Do Interest Rates Affect The Time Value of Money?

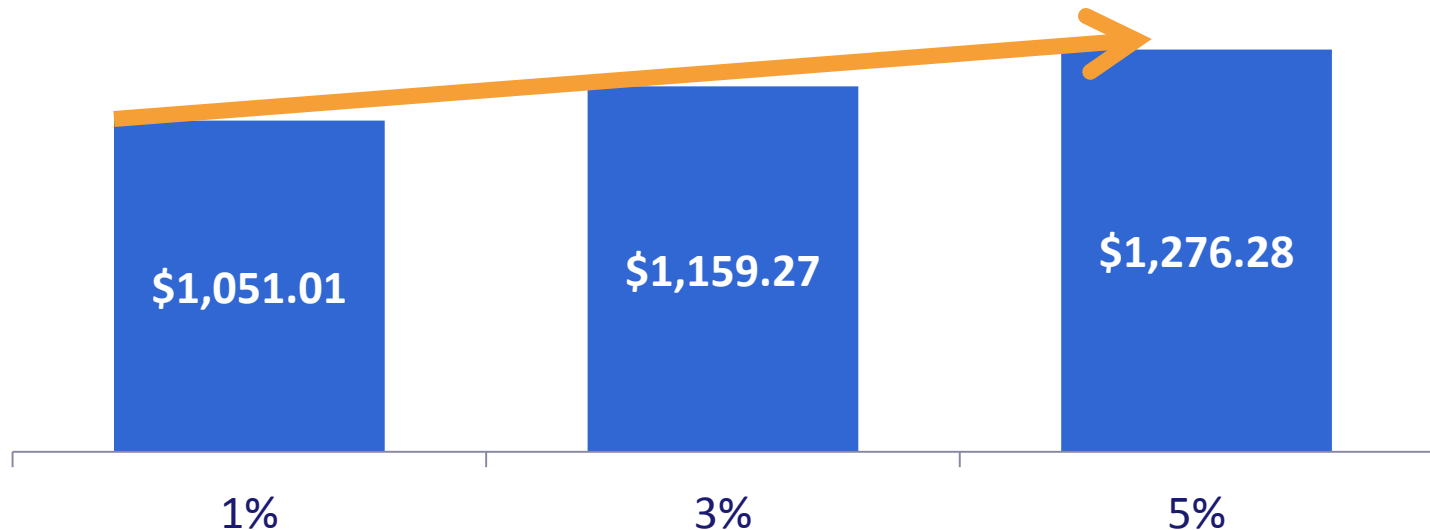


Interest
Rate



More Money
Earned

\$1,000 Saved for 5 Years with Compounding Interest



How Does Time Affect the Time Value of Money?



Time



More Money
Earned

College Savings Fund

Felix and his parents

Saved for: 18 years

- Started when he was born

Contributed: \$50/month

Total Contribution: \$10,800

Savannah and her parents

Saved for: 4 years

- Started when she was a freshman

Contributed: \$350/month

Total Contribution: \$16,800

Both earned the same interest rate

Both currently have the same balance (about \$19,500)

Savannah's parents contributed significantly more

How Does Money Affect the Time Value of Money?



Money

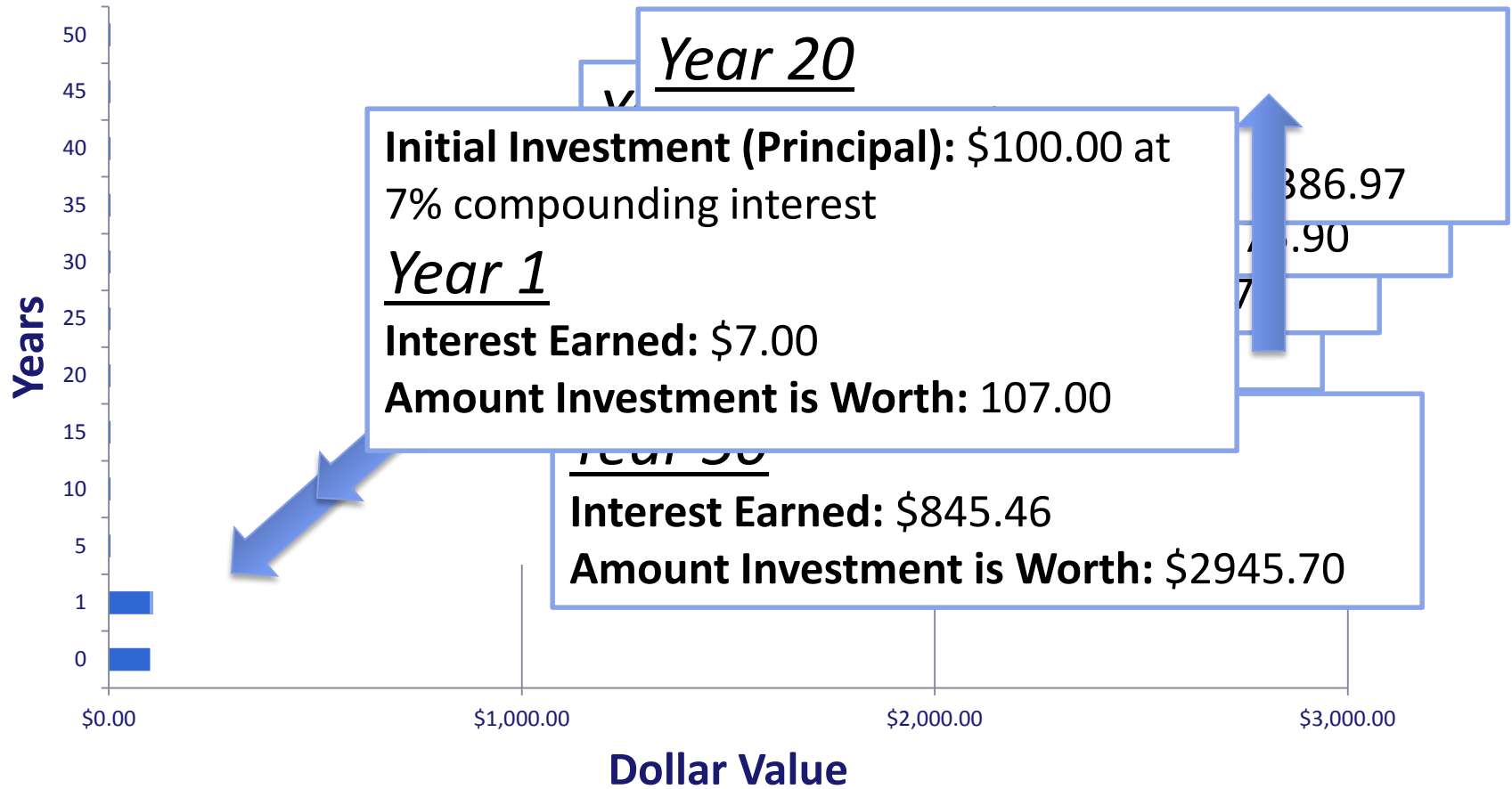


More Money
Earned

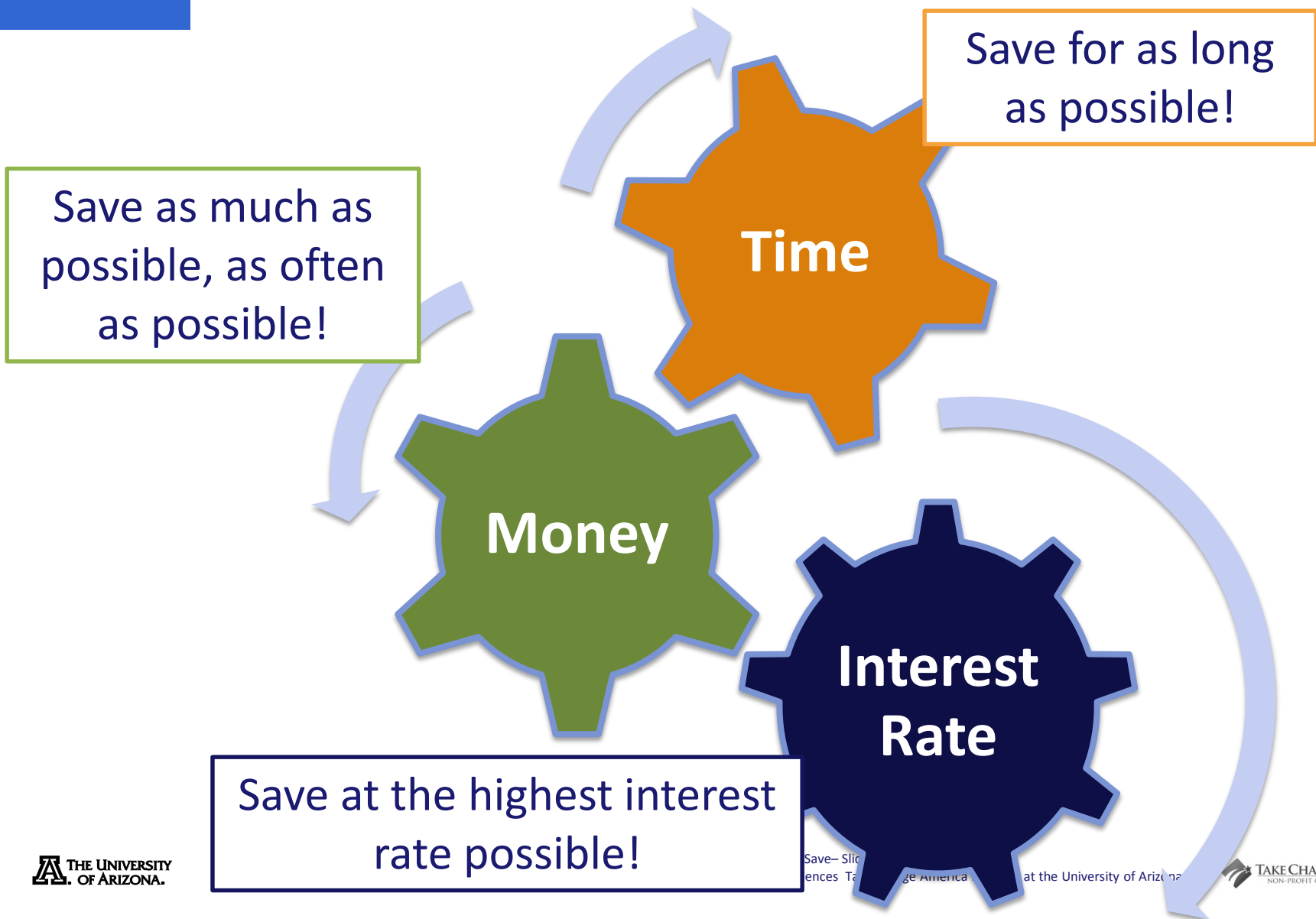
Principal -
original amount
of money saved
or invested

3% interest for 5 years	
Principal	Value of Savings
\$100	\$115.93
\$1,000	\$1,159.27
\$10,000	\$11,592.74

Time Value of Money Magic!



Maximize Your Return!



My Saving Quest

Part 3: Implementing My Saving Quest



How much can you realistically save each week?

Write a goal

Specific

Measurable

Attainable

Realistic

Time-bound



How will you make the saving process automatic?



How can your goal be reached using the time value of money?

Savings is an Essential Component of a Financial Plan

Reduces future
financial
uncertainty

Reduces
negative
emotions

Requires
trade-offs be
made

Best
accomplished
when
automatic

Opportunity
for savings to
increase in
value