



**MEMBERS 1<sup>st</sup>**  
FEDERAL CREDIT UNION

**SAVING &  
INVESTING**



# KNOWING THE DIFFERENCE...

## Saving vs. Investing YouTube Video



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Financial Education

Lesson 4-1: Put  
Savings to Work





# SAVING VS INVESTING

## SAVING

- › Store money somewhere to avoid spending now
- › Original amount always available (unless stolen, lost, or destroyed)
- › Insured if kept in a bank account



# SAVING VS INVESTING

## INVESTING

- › Use money with expectation that it will make a profit (Ex: stock, rental property, business)
- › Not all investments are insured





# SAVING VS INVESTING

## INVESTING

- › No guarantee that original amount will be available if value of investment drops (except bank accounts)



## 3 SIMPLE STEPS TO BUILD WEALTH

**1.** Make enough money to cover important expenses and have something left to save and invest.

**2.** Have a plan to save and use part of your income to invest.

**3.** Invest to put money to work for you.



# SOURCES OF INCOME FOR TEENS

**ALLOWANCE**

**JOB**

**SELL  
SOMETHING**

**GIFT MONEY**

**EARNED  
INTEREST**

**?**

# WINDFALLS

What's a windfall?

What are your windfalls?

**Use unexpected  
increases in cash  
to save and invest!**







# WINDFALLS

Have you received any unexpected increases in cash during the past year?

Gift money, found money, increase in allowance, increase in pay, tip money, bonus, scholarship or grant, or inheritance.





# WINDFALLS

The next time you have a windfall, **decide how much you'll save before indulging yourself.** You may also need to set aside enough money to pay income taxes on your windfall.



# SAVERS ARE RELATED TO BORROWERS

**BORROWERS**  
Borrow money

**SAVERS**  
Deposit money

**CREDIT UNION  
or BANK**

Store money & lend money

Borrower  
pays interest to  
credit union/bank.

Credit  
union/bank pays  
interest to saver.

# THE COST OF BORROWING

- › Money is not free to borrow. It costs money to borrow money.
- › Different places charge different amounts when you borrow. It is usually a % per year of the amount you borrowed. This % is called the interest rate.



## EXAMPLE

Alex wants to borrow \$1,000 from a local bank, but there is 10% interest on the one-year loan.

$$\text{\$1,000} \times 10\% = \text{\$100}$$

In this case, the **interest** is **\\$100** and the **interest rate** is **10%** (but people often say “10% interest without saying “rate.”)



## EXAMPLE

Alex will have to pay back the original \$1,000 after one year, but Alex will also have to pay the \$100 in interest. Alex borrows \$1,000, but will pay a total of \$1,100.

Alex is **borrower**. The bank is the **lender**.  
\$1,000 is the **principal**. \$100 is the **interest**.  
10% is the **interest rate**.

# COMPOUND INTEREST CAN WORK FOR YOU

Investing is when you put money where it can grow – such as a bank or a business. **If you invest your money at a good interest rate, it can grow very nicely.**



# EXAMPLE: 15% on \$1,000

Year	Investment at Start	Interest Rate	Interest Made	Investment at End
0	\$1,000.00	15%	\$150.00	\$1,150.00
1	\$1,150.00	15%	\$172.50	\$1,322.50
2	\$1,322.50	15%	\$198.38	\$1,520.88
3	\$1,520.88	15%	\$228.13	\$1,749.01
4	\$1,749.01	15%	\$262.35	\$2,011.36

**END: \$2,011.36.** Your money more than doubles in 5 years!



## WATCH IT GROW

Let's say you have \$1,000 saved in an account that earns 3% interest once a year.

What is the balance and the compounded interest earned each year over five years?



# WATCH IT GROW

Year	Interest Earned	Ending Balance
Beginning		\$1,000.00
1	?	?
2	?	?
3	?	?
4	?	?
5	?	?

Without any physical effort on your part, your money has “worked” to earn you how much interest after one year?





# INTEREST-EARNING SAVING OPTIONS

## Credit Unions or Banks

- › Savings Account
- › Money Market Accounts
- › Certificate of Deposit (CD)





# INTEREST-EARNING SAVING OPTIONS

[www.treasurydirect.gov](http://www.treasurydirect.gov)

› U.S. Savings Bond



# POPULAR SAVINGS OPTIONS

\*Insured



Type	Pros	Cons
<b>Savings Account*</b>	<ul style="list-style-type: none"><li>&gt; Low minimum balance requirement</li><li>&gt; Able to remove or add money to the account</li><li>&gt; Interest is applied to the account, usually each month or quarter</li></ul>	<ul style="list-style-type: none"><li>&gt; Low interest rates, which may change over time</li></ul>
<b>Money Market Deposit Account*</b>	<ul style="list-style-type: none"><li>&gt; Higher interest rates than with regular savings accounts</li><li>&gt; Able to remove or add money to the account</li><li>&gt; Interest is applied to the account, usually each month</li></ul>	<ul style="list-style-type: none"><li>&gt; May limit how many times money can be removed each month</li><li>&gt; Required first deposits are higher than for regular savings accounts</li><li>&gt; May require a minimum balance to avoid fees</li></ul>
<b>Certificate of Deposit (CD)*</b>	<ul style="list-style-type: none"><li>&gt; Higher interest rates than savings and money market accounts</li><li>&gt; Interest rates stay the same for a specific length of time</li><li>&gt; Interest might be applied more often than with savings or money market accounts</li></ul>	<ul style="list-style-type: none"><li>&gt; Low interest rates</li><li>&gt; Money isn't available until a specific date</li><li>&gt; Penalties for cashing in CD early</li></ul>
<b>US Savings Bond</b>	<ul style="list-style-type: none"><li>&gt; Buy in amounts of as little as \$25</li><li>&gt; Fixed interest rate for up to 30 years</li></ul>	<ul style="list-style-type: none"><li>&gt; Interest adds up but isn't paid until you cash in the bond</li><li>&gt; Low interest rate</li><li>&gt; Penalty if cashed in within the first five years</li></ul>



# INCOME INVESTMENT

An *income investment* provides **expected earnings**, usually in **predictable amounts**.

**Earned interest:** payment received in return for use of your money





# INCOME INVESTMENT

**Dividends:** share of profits  
some companies pay to their  
stockholders

**Rent payments:** received  
from people or companies in  
return for using your property





# GROWTH INVESTMENT

*Growth investments* are purchased because of the **potential that the value will increase over time** — an unpredictable amount of money is received when the investment is sold.



# GROWTH INVESTMENT

- › Real Estate
- › Business
- › Crops
- › Precious Metals



# DECIDE STEPS

**D**efine what you want to achieve.

**E**stablish your must-have and nice-to-have criteria.

**C**hoose a few options that match your criteria.

**I**dentify and compare the pros and cons of each option.

**D**ecide the most logical option for your situation.

**E**valuate the results and make adjustments for next time.