Financial Literacy Course

East High School

Module 2

What will you learn about?

- Savings Vehicles
- Retirement Plans
- Principal & Interest
- Income
- Compounding Interest & the Rule of 72

Saving Vehicles

- **Saving Vehicles** – Accounts designed to let you set aside money separate from your checking account.

Examples

- Savings accounts & auto-save online banking
- Money market accounts
- Certificates of Deposits (CDs)

Saving Vehicles

- **Simple Saving Accounts**
  - Usually insured up to $250,000 per depositor
    - This is safer than storing money in your home
  - Liquid (easy access to your money)
  - Several withdrawal options such as ATMs and Tellers
  - Low interest rates – Money builds more slowly
  - Usually require low minimum balances

Saving Vehicles

- **Certificates of Deposit (CDs)**
  - Usually insured up to $250,000 per depositor
  - Aren’t liquid – you are unable to access money until the end of your term
  - Fewer withdrawal options
  - High interest rates than saving accounts

Saving Vehicles

- **Money Market Savings Accounts**
  - Usually insured up to $250,000 per depositor
  - Liquid (easy access to your money)
  - Offer more withdrawal options
  - Offer higher interest rates
  - Require a high minimum balance

Saving Vehicles

- **Auto-Save with Online Banking**
  - Is an option that comes along with some accounts
  - Can make saving easier
  - Works well with a budget

Retirement Plans

- **Savings/Retirement Plans** – A way to save money for the long-term, which for most people means retirement

Examples

- 401(k) and 403(b) – Employer-sponsored retirement plans
- IRA and Roth IRA – Retirement accounts set up by individuals

Retirement Plans

- **401(k) and 403(b)s**
  - Employer-sponsored retirement plans
  - Offer tax benefits
  - Often employer-matched
  - Withdrawal restrictions
  - Can let you live the good life (as soon as you retire)

Retirement Plans

- **IRAs**
  - Offer tax advantages
  - Are more readily available
  - Offers several options, like a Traditional IRA and a Roth IRA
  - Rules on how much money you can contribute

Principal

- **Principal** – The sum of money you put into an account or the amount of money (minus interest) you owe on debt
  - So, if you open an account with $500 (or take out a loan for $500), the principal amount in either case is $500

Interest

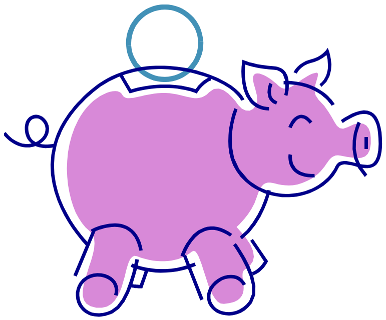
- **Interest** – The fee someone pays to be able to borrow money
  - You pay interest on money borrowed (like on a loan to buy a car)
  - You make interest on money saved (like when a bank pays you on money you put into savings)

- **Interest Rate** – The percentage of interest you either make or pay on a principal (like 1% or 5%)
  - Say you have a savings account with $1,000 and a 5% interest rate – 5% of $1,000 makes you $50

Compound Interest

- **Compound Interest** – Interest that's generated not only from the money you put into an account, but also from the interest you make on that money
    - So, if you put $500 into savings at 5% interest, you only earn 5% on $500. Compound interest allows you to earn 5% on the $500 and the interest you've made

Compound Interest



- Rule of 72 – how long will it take for principal to double?

- At 9%, $1,000 will double in 8 yrs.
  - 72/9 = 8 yrs

- How long will it take $10,000 to double at 6%?
  - 72/6 = 12 yrs

Other Key Terms

- **Income** – The government defines income as any form of money, property, or service that you receive.
- **Expenses** - Anything you spend money on, from a pack of gum to your monthly cell phone bill
- **Budget** – A plan of how you will spend the money that you make or receive
  - This is a way to reach your savings and yes, even spending goals