JUMP$TART! FINANCIAL SMARTS FOR STUDENTS WASHINGTON COALITION

Chapter Four: Saving and Investing

Chapter Learning Objectives

1. Compare advantages and disadvantages of saving early versus saving later.
2. Explain the importance of short-term and long-term saving and investment strategies.
3. Identify and evaluate risk, return, and liquidity of various savings and investment instruments.

Episode 118 Synopsis

In this episode you will learn the powerful potential of starting a savings plan early in life. You'll also discover various savings and investing options available to young people. As always, you'll meet individuals who are successful at saving and at their businesses.

Jump$tart Standards Correlations

Financial Responsibility and Decision-Making

- Take responsibility for personal financial decisions.
- Make financial decisions by systematically considering alternatives and consequences.

Planning and Money Management

- Develop a plan for spending and saving.
- Develop a personal financial plan.

Saving and Investing

- Discuss how saving contributes to financial well-being.
- Describe how to buy and sell investments.

Washington State Standards Correlations

SOCIAL STUDIES

2. ECONOMICS - The student applies understanding of economic concepts and systems to analyze decision-making and the interactions between individuals, households, businesses, governments, and societies.

    2.1 Understands that people have to make choices between wants and needs and evaluate the outcomes of those choices. (9-12)

    2.2 Understand how economic systems function.

National Standards for Financial Literacy – Council for Economic Education Correlations

III. SAVING

Saving is the part of income that people choose to set aside for future uses. People save for different reasons during the course of their lives. People make different choices about how they save and how much they save. Time, interest rates and inflation affect the value of savings.

V. FINANCIAL INVESTING

Financial investment is the purchase of financial assets to increase income or wealth in the future. Investors must choose among investments that have different risks and expected rates of return. Investments with higher rates of return tend to have greater risk. Diversification of investment among a number of choices can lower investment risk.

Lesson Prep and Supplies

Getting Started

1. Familiarize yourself with this **BizKid$** episode by watching it ahead of time. The episode will serve as a springboard to student learning, discussions, vocabulary exploration, and related hands-on activities.

2. Determine what equipment is required to show the episode in the classroom and request it if needed.

3. Choose an activity and gather the supplies needed to complete the lesson.

Equipment & Supplies for Preview and Screening

Time Needed: 45-60 minutes

Items Needed For Class:
TV/DVD Player
DVD of Episode 118
Projection System

Items Needed for Each Student:
Pencil or Pen
Paper for taking notes
Copy of BizTerms sheet for each student

Activity One: Preview and Screening

Introduction

Briefly explain that **BizKid$** is a public television series that teaches kids about money and business. Mention that the bizkids.com website has lots of video clips, games, a blog, and other resources to help kids start businesses and learn about money.

Episode Preview Activity

Before you show **BizKid$** episode 118, "Saving and Investing for Your Future" lead your students in a brief activity.

- Distribute scratch paper and pen or pencil to each student. Let students know to list any questions they have for later discussion.
- Ask students if they believe they can save a million dollars by the time they're 65? Why or why not?
- What is the most important thing that young people have on their side regarding investing? (Time)

After the students discuss these questions as a group, tell them what they will see in episode 118 "Saving and Investing for Your Future" as described below.

About the Episode

In this episode, you'll learn about the powerful potential of starting a savings plan early in life. You'll also discover various savings and investing options available to young people. As always, you'll meet individuals who are successful at saving and at their businesses.

Next Steps

Show the BizKid$ episode. After the episode, ask students if they found answers to any of the questions they wrote on their sheets. Allow them to share and ask any questions that remain. Did they learn anything from the episode that will influence their behavior?

Distribute the list of BizTerms vocabulary to each student. Have them look up definitions. Papers are due in about 30 minutes. After 30 minutes have passed, give the students a copy of the definition sheet and they can check their own answers against the sheet.

Activity Two: BizTerms Vocabulary and Definitions

BizTerms Vocabulary

1. Allocate
2. Bonds
3. Certificate of Deposit
4. Interest
5. Maturity
6. Money Market Deposit Account
7. Risk
8. Savings Account
9. Stock
10. Venture

BizTerms Definitions

1. To allocate something is to set it aside for a particular purpose.

2. Bonds represent money that a government or company has borrowed from the bond holder. Bonds are usually created for a minimum of one year. When the bond reaches 'maturity' then the bond holder is paid back the bond amount plus interest.

3. A Certificate of Deposit (CD) is similar to a bond but the term may be shorter than one year. A CD is usually provided by banks or credit unions in exchange for your promise to keep the money in the account and not spend it for a specific length of time, such as 6 months. At the end of 6 months, you can withdraw the money plus interest, or you can leave it on deposit.

4. Interest is an amount of money that you earn for lending your money to others. It is usually described as a percentage of the original loan amount, such as 5% interest, and has a time period when it is calculated, such as daily or annually. If you are taking a loan out, then interest is the fee that you pay for the privilege of borrowing someone else's money, in addition to paying back the money that you have borrowed.

5. Maturity is the date when a bond holder can receive back their money plus interest.

6. Money Market Deposit Account is a type of financial account that usually earns a higher rate of interest than a savings account. These usually require a high minimum balance.

7. Risk is the chance that something bad could happen.

8. A Savings Account is a financial account that earns interest, usually at a bank or credit union. It is meant to be a safe place to keep money for the future.

9. Stock in a company is a financial instrument or paper that gives the purchaser part ownership in the company that is named on the stock.

10. A Venture is when you take a risk with the hope of making a profit. A new business might be called a 'business venture.'

Activity Three: Why Save?

Activity Learning Objectives

- Identify the benefits of saving money.
- Calculate the amount you must set aside weekly to reach your savings goal in one year.
- Calculate the amount of time needed to reach your goal if you set aside $20 per week.

Supplies Needed

- Pen or pencil
- Student copies of activity worksheet

Directions

- Distribute an activity worksheet and a pen or pencil to each student.
- Allow 15 to 30 minutes for students to read the directions and write their answers.
- Then have a class discussion about the reasons that people have for saving money.
- Allow students to share their personal savings goal, and how much they would need to save per week and also how long they would need to save if they set aside $20 per week.
- Challenge students to follow through with their savings goal created through the use of this worksheet.

Why Save? Worksheet

Saving is when you keep a portion of money set aside for a particular goal. List three reasons why people would want to save money.

1. ____

2. ____

3. ____

Do you already have a savings goal in mind?

4. My Goal (what I want to do with the money):

____

5. How much money do I need to save to pay for that goal? ________________________________

6. If I want to reach that goal in one year, then how much do I need to set aside each week?

Example: $500 goal divided by 52 weeks in one year = 500/52 = $9.62 per week to reach the goal

Your turn:

____

7. If I want to set aside $20 per week, how long will it take me to reach my goal?

Example: $500 goal divided by $20 per week = 500/20 = 25 weeks to reach my goal

Your turn:

____

Extra Credit:

8. If I put my money into a savings account at a bank or credit union, it can earn interest. How much will I earn in interest in one year if I deposit $20 per week at a 2% interest rate for one year?

Example: A 2% annual interest rate is going to be calculated daily on the balance of the account. 2% per year divided by 365 days in the year is .00547945% per day earned on the account balance.

The first day, when I deposit $20, I will earn .00547945% on that $20 balance, or $0.00109589.

The second day, my starting balance will be $20.00109589 and I will earn .00547945% on that balance. Use a spreadsheet or calculator to figure the interest earned in one year.

Activity Four: Investing

Activity Learning Objectives

- Identify factors that affect investing.
- Be familiar with the time value of money.

Supplies Needed

- Pencil with eraser
- Student copies of activity worksheet

Directions

- Distribute an activity worksheet and a pencil with eraser to each student.
- Allow 15 to 30 minutes for students to read the directions and write their answers.
- Then have a class discussion about the factors that affect investing. Remind the class that the most important thing that young people have on their side regarding investing is time.
- Challenge students to use of their knowledge of investing in their daily lives.

Time Value of Money Worksheet

The goal of investing is to build wealth over time by putting your money to work for you. Successful investing requires time, patience, and a clear plan directed toward your goal.

Part I – The Four Factors of Investing

Take a look at the basic scenario that follows, then compare the results as one of these four factors of investing is changed:

Basic Scenario	
Time	1 year
Rate of return	3%
Amount Invested	$100
Compounding	Annually
Result	$103

1. Time – Start investing early and give your investment more time to grow. Starting with the basic scenario above, if you change the time from 1 year to 2 years, what is the result?
   ____

2. Rate of Return – A higher rate of return will grow more quickly, but may also carry more risk. Starting with the basic scenario above, if you change the rate of return from 3% to 4%, what is the result? ___________________________

3. Amount Invested – The more you invest, the greater the possible return on your investment. Starting with the basic scenario above, if you change the amount invested from $100 to $200, what is the result? ___________________________

4. Compounding – The frequency of compounding will affect your return on investment. An account with interest compounded daily will earn more than an account with interest compounded annually because you earn interest on your interest. Starting with the basic scenario above, if you change the compounding from annually to bi-annually, what is the result?
   ____

Extra Credit

Find out what the rate of return and compounding frequency are at three of your local banks or credit unions for a savings account. Which account would be best for you if you were to put in $100 for one year?

Part II – The Value of Time

The goal of investing is to build wealth over time. Time is the most important factor for young people when faced with investment choices. Time is important because of compound interest – where you earn interest on your interest.

Complete the table below to see how money grows over time. For this exercise, you start by investing $100 at a 3% annual rate of return, compounded annually.

Time Completed	Account Balance
Start	$100.00
1 year	$103.00
2 years	$106.09
3 years	
4 years	
5 years	
10 years	
15 years	
20 years	
25 years	
30 years	
35 years	
40 years	
45 years	
50 years	

How much of the money earned in 50 years is interest?

How would the results differ if the interest rate was 5% instead of 3%?

Extra Credit

Your local banks or credit unions have different investment accounts such as Certificate of Deposit or Money Market Accounts. Which account would be best for you if you were to put in $100 for one year?

Resources

National Financial Educators Council (NFEC)	NFEC and the NFEC EduNation Campaign provides complementary personal finance materials for parents, educators and concerned citizens interested in teaching children about money. http://www.financialeducatorscouncil.org
Banking and Financial Systems	This is a textbook published by Goodheart-Wilcox. The ISBN number is 978-1-60525-778-5. http://www.g-w.com
Voluntary National Content Standards in Economic Education	This book is the 2nd edition from the Council for Economic Education. The ISBN number is 978-1-56183-733-5. http://www.councilforeconed.org
Improving Financial Literacy: What Schools and Parents Can and Cannot Do	This book is published by Jump$tart Coalition for Personal Financial Literacy. The ISBN number is 0-9666010-1-7. http://www.jumpstart.org