

SAVING

WHY?

- to invest later
 - Life like no one else is living now so you can live like no one else is living later
- in case of emergencies
- for big items
- to avoid debt
- to have more money later

why don't people save?

- instant gratification (patience)
- mindset (I want it now vs. Save for something in future)
- other needs for the money
- knowing how
 - ***to be prepared for the future***

HOW?

- savings account
- piggy bank
- budgeting
- change jar
- saving certain dollar bill (\$5 example)
- payroll deductions
- PYF: Pay Yourself First
- CD: Certificate of Deposit

❑ Revolving Savings

HOW MUCH?

❑ 70-20-10 (70-30 or 50-50) rule

❑ Goal: 6 months of income

FINANCIAL INSTITUTIONS

Pawnshop Loans: a loan you get from a pawn shop, they hold something valuable as collateral (heirloom, precious medal, etc.) in case the loan is not repaid. They charge a lot in interest.

Payday Lender: Purpose is to give an advanced payday. Meant to be a small amount and short term loan; charge a very high interest rate.

Alternatives to a payday loan:

- Small loan from bank/credit union
- Donate plasma
- Borrow from family
- Selling clothes or other items
- Borrow from friend
- Title loan
- Get a second job

Financial Institution: provide financial services (loans, holding on to your money, investment accounts)

Commercial Bank	Credit Union
For-profit	Not-for-profit, owned by members
Open to anyone who wants to join	Must have a membership with “common bond”
Offer lots of financial services	Offer many services but usually not as many as a bank
Usually a large depository institution	Often able to pay higher interest rates and charge lower fees
FDIC (Federal Deposit Insurance Corporation): insure bank accounts up to \$250,000 per account	NCUA (National Credit Union Administration): same as FDIC but for credit unions

Checking Account: (transaction account) quick access of funds; write a check, slide your debit card, withdrawal money

Savings Account: account for money not intended to be used for daily expenses; limited access or minimum balance; earn interest

Investment Accounts:

Money Market (pays interest according to balance of account) or CD (pays interest according to how long you have the money deposited)

Features of Financial Institutions

- Online banking
- Mobile banking
- Debit cards (plastic card that connects to your checking account, access through a PIN)
- Credit cards
- ATM
- Bill pay

Fees

- Overdraft fee: charged if you withdraw more money from your account than is available.
- ATM fee: charge for using an ATM that belongs to another institution\
- Minimum balance fee: charged if you go below that balance

INVESTING

- Time Value of Money: idea that a dollar today is worth more than a dollar in the future because of the potential to earn interest today
- Earned Interest: percentage paid by an investment
- Simple Interest: earned interest calculated on the principal amount only
 - $I = Prt$
- Compound Interest: earned interest calculated on the total amount in the investment account (principal + interest earned up to that period); earning interest on interest
 - $A = P(1+r)^t$

Standard 3 B

- Investing: purchasing assets with the goal of increasing future income
- Return: amount gained from the investment (what you get)
- Principal: amount the investor contributes to the investment (what you put in)
- Investment risk: the possibility that an investment will fail to pay the expected return or fail to pay a return at all.



- Inflation: rise in the general level of prices (2-4% each year)
- Diversification: reducing risk by spreading investments (not putting all your eggs in one basket)
- Liquidity: how quickly an investment can be turned into cash
 - The more liquid an investment is, the lower the rate of return
 - The less liquid, the higher the rate of return
- Broker: offer investment advice as well as buying and selling investments
 - Brokerage firm: company that buys and sells investments
- Investment philosophy: investor's approach to investment risk
 - Conservative, moderate, aggressive

STOCKS

- Stocks: represent ownership in a company
- Dow Jones Industrial Average: an index of 30 US stocks used to measure the performance of the US financial market
- S & P 500: an index of 500 stocks that represent the price movement of major common stock
- Initial Public Offering: when a company first issues stock to the general public
- NYSE: where buyers and sellers of securities meet and compete for the best price; located on Wall Street in New York City
- Trading Floor: where brokers would meet to buy and sell shares of stock; now done electronically

- Opening bell rings at 9:30 and closing bell at 4 PM
- What drives stock prices:
 - Supply and demand: I've got it and you want it
 - A stock is worth what some investor is willing to pay for it
 - The supply of shares is limited
 - A company's financial health
 - Market trends: healthcare, green/environmental
 - How news affect prices: 9/11
- How to make money from stocks
 - Selling shares at a higher price than you bought
 - Dividends: extra bonus for shareholders

RETIREMENT

Describe the lifestyle you want to live when you retire.

When do you spend the most money? On the days you work? Or your days off?

<https://www.commoncraft.com/video/saving-retirement>

Retirement Accounts	
Pension	when an employer makes contributions towards a pool of funds set aside for an employee's future benefit
IRA	Individual Retirement Account; allows you to put away money (pre-tax) for retirement that grows tax-deferred.
Roth IRA	Individual Retirement Account; contributions are NOT tax deductible and distributions are tax free; more flexibility where to invest; limit on contributions
401(k)	established by employers to contribute money on either a post-tax or pre-tax basis; comes from your paycheck; some employers make or match contributions; less flexibility for investment options
403(b)	retirement account offered to non-profit organizations (churches, schools)
Social Security	Government retirement account that pays based on average lifetime wage; may begin receiving payments 61 years and 9 months or full benefits at 66

Estate Planning: preparing to transfer one's property after death; minimize taxes, make known who gets what, avoid probate

Will: legal documents that tells how you want your estate to be distributed after your death

Trust: a legal document in which an individual gives someone else control of their property

Power of Attorney: legal instrument authorizing one to act as another's attorney or agent.

Probate: when the courts step in to distribute property; want to avoid!

INSURANCE

Life is full of risks.

Ways to manage risk

1. Avoid the risk.
2. Reduce the risk. (wearing your seatbelt)
3. Accept the risk. (carry a wallet, it could be stolen)
4. Share the risk. (purpose of insurance)

Insurance: shares the risk; buys peace of mind; arrangement between the consumer and insurer (insurance company)

Policy: contract between the consumer and insurance company on what is covered

Premium: fee paid to the insurer to be covered

Can be paid monthly, quarterly, semi-annually, or annually

Deductible: amount paid out of pocket before the insurance steps in

Ways to lower your premium:

- Having a higher deductible
- Good grades
- Don't get in accidents, good record
- Shopping around
- Turn 21
- Get married

AUTO

- Liability Insurance: required by law; only covers damages to others that you are liable for
- Physical damage: Collision (your car hits something) and comprehensive (no collision involved--tire blowout, window shattered, damage from hail storm)
- Medical Insurance: covers injuries in an auto accident
- Uninsured or underinsured coverage: covers when the other person doesn't have liability insurance

Things that affect auto insurance costs: record, age, gender, marital status, type of car, color of car, location

HEALTH/MEDICAL

- Cheapest rates are through your employer
- Deductible and then *usually* insurance companies pay 80% of remaining bill and you pay 20% of the bill.
- Dental, vision, prescription

LIFE

- Pays a death benefit amount to a beneficiary upon the consumer's death
- Need if someone is financially dependent on you
- Term Life Insurance (1st period)
 - Covers you in case you die for a certain period of time (10-30 yrs.)
 - Most common, cheaper, choice for young families
- Whole Life Insurance
 - Covers you for your whole life
 - Much more expensive

PROPERTY (HOMEOWNER'S OR RENTERS)

- Covers damage to property
 - Homeowners covers the dwelling and the contents
 - Renters covers only the contents

DISABILITY

- Replaces a portion of one's income if they are unable to work
- Only replaces about 60-50% to give incentive to return to work