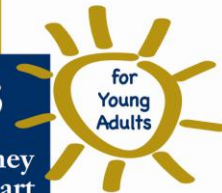


FDIC

\$
Money
Smart



Pay Yourself First

FDIC Money Smart for Young Adults



Building: Knowledge, Security, Confidence

Objectives

- **Explain why it is important to save**
- **Identify savings goals**
- **Identify savings options**
- **Determine which savings options will help you reach your savings goals**



Spend or Save?



Pay Yourself First

- **What does it mean to “pay yourself first”?**
 - **Put some money in a savings account before you buy things or pay bills**



Benefits of Paying Yourself First

- Learn to manage money better
- Save money toward identified goals
- Improve your standard of living
- Have money for emergencies



Activity 1: Pay Yourself First Worksheet

Complete Activity 1 in your Participant Guide

- Write down your goals for the future
- Fill in the top half of the worksheet only
- Fill in the second half when the instructor directs you to



How Your Money Can Grow

- **Interest**

- Paid to you for keeping your money on deposit with financial institutions
- A percentage of the money in your account



- **Compound interest**

- Money earned on the previously paid interest and money already in your account



Annual Percentage Yield (APY)

- **The amount of interest you earn on a yearly basis**
- **Includes the effect of compounding**
- **Compare the APYs of the savings products, not the interest rates**



Rule of 72

- A formula that lets you estimate how long it will take for your savings to double in value

$$72 \div \text{Interest Rate} = \text{Number of Years}$$

- $72 \div 4 = 18$ years
- $72 \div 12 = 6\%$
- $72 \div 20 = 3.6\%$



Savings Products



- **Types:**
 - Savings account
 - Money market deposit account
 - Certificate of deposit (CD)
- **Choose savings products that are federally insured**
- **Calculate your insurance coverage:**
 - Electronic Deposit Insurance Estimator (EDIE): www.myfdicinsurance.gov



Activity 2: Savings Products

Complete Activity 2 in your Participant Guide

- Determine which savings product would be best for each situation



Non-Deposit Investment Products

- **Investments:**
 - Are long-term savings options purchased for future income or financial benefit
 - Are NOT FDIC insured or bank guaranteed, so you could lose all the money you invest
 - May earn and grow more than a regular savings account because of the risk you take when you invest



Types of Investment Products

- **Stocks**
- **Bonds**
- **Mutual funds**
- **U.S. Treasury securities**
- **Retirement investments**



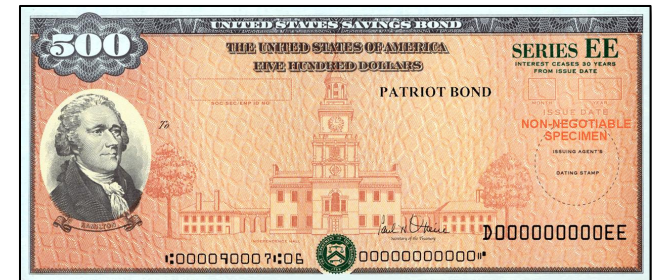
Stocks

- **You:**
 - Own a share/part of a company
 - May receive dividends if the company profits
- The value of your investment changes (up or down) according to the stock market



Bonds

- You lend money to a corporation or government entity for a certain period of time
- I Bonds
 - Purchased at face value
- EE Bonds
 - Normally purchased at half their face value



Mutual Funds

- A product that combines money from many investors to purchase numerous separate investments
- ***Diversify***: spread your risk of loss across many savings and investment options



U.S. Treasury Securities

- Treasury (T) bills
- Treasury (T) notes
- Treasury Inflation-Protected Securities (TIPS)
- Treasury (T) Bonds
- **Minimum purchase price: \$100.00**
- **Backed by the U.S. Government**



Retirement Investments

- **Products to help you save toward retirement:**
 - Individual retirement arrangements (IRAs)
 - 401(k) and 403(b) plans
 - Variable annuities



IRAs

- **May include a combination of investment products**
- **Are tax exempt**
- **Fluctuate with stock market**
- **Include Traditional IRAs and Roth IRAs**



401(k) and 403(b) Plans

- **401(k):**
 - Established by an employer
- **403(b):**
 - Offered to employees of public schools and certain tax-exempt organizations



Variable Annuities

- **An insurance contract that invests your premium in various mutual fund-like investments**
- **Very costly**
 - **You should hold the annuity for at least 10 to 20 years to justify the fees**



Activity 4: Investment Products

Complete Activity 4 in your Participant Guide

- Match each investment product with the appropriate description



Special Savings Programs

- **Individual Development Account (IDA)**
 - A matched savings account for job training, education, business startup, or home down payment
- **529 College Savings Plan**
 - An education savings plan operated by a state or educational institution



Other Investments



- **Owning a home**

Value of home = \$250,000

Minus Debt = \$200,000

Equity = \$50,000

- **Owning a business**



Activity 4: Pay Yourself First Action Plan

Complete Activity 4 in your Participant Guide

- Consider three decision factors when selecting the best savings and investment options
- Consider your financial goals and how you can save to reach them



Module Summary



Module Summary

Congratulations! You have learned:

- What it means to pay yourself first and how you can benefit by doing it
- About a number of saving and investment options
- How to decide what savings and investment options are best for you
- How your money can grow with compound interest
- Tips to help you save more

