

# IT JUST ADDS UP

## LESSON TWELVE

### Savings TEACHERS

#### Introduction

Spending money is easier than saving it. But to earn extra money and achieve our financial goals, we need to save. Financial success is almost impossible without paying ourselves first. Putting money regularly into savings instead of spending all of it is the key. Savings accounts at banks earn interest, which is a payment for allowing someone else (the bank) to use our money. A bank savings account is one of the best ways to start building money for our future. Money placed in a bank savings account is safe and will make more money for us. The idea of savings requires patience, but it's worth it!

#### Purpose

This lesson will help students discover the difference between simple and compounded interest.

Students will use fractions to compute simple and compound interest rates.

#### Procedure

1. Have students identify different reasons people save money. Talk about the importance of saving for financial goals, such as a college education or a new video game. Remind them that putting money in a savings account makes saving easier because money will grow, and talk about how interest rates help money grow faster.

### Definition of the Week

**Saving:** Setting aside money until a future date instead of spending it today.

2. Use the following example to explain the difference between simple interest (interest paid on the initial amount) and compound interest (interest paid on the initial amount plus the earned interest):

Suppose you have \$100 in a savings account paying 6% simple interest. At the end of year one, you would have \$106. ( $100 \times .06 \times 1 = \$6$  in interest + \$100 for the initial amount = \$106.) At the end of year two, you would have \$112. ( $100 \times .06 \times 2 = \$12$  in interest + \$100 for the initial amount = \$112.)

Have students compute the amount of interest earned at the end of each year for ten years.

Now, suppose you have \$100 in a savings account paying 6% interest compounded annually. At the end of year one, you would have \$106.  $100 \times .06 \times 1 = \$6$ . ( $100 \times .06 \times 1 = \$6$  in interest + \$100 for the initial amount = \$106.) At the end of year two, you would have \$112.72. ( $106 \times .06 \times 2 = \$12.72$  in interest + \$100 for the initial amount = \$112.72.)

3. Remind students that banks pay interest in return for using their money, but their money is always available when they want to withdraw it. Also discuss the difference between putting savings in a bank (earns interest, is less tempting to use and is safe) vs putting the money in a piggy bank at home (earns no interest, is tempting to use and may not be safe).

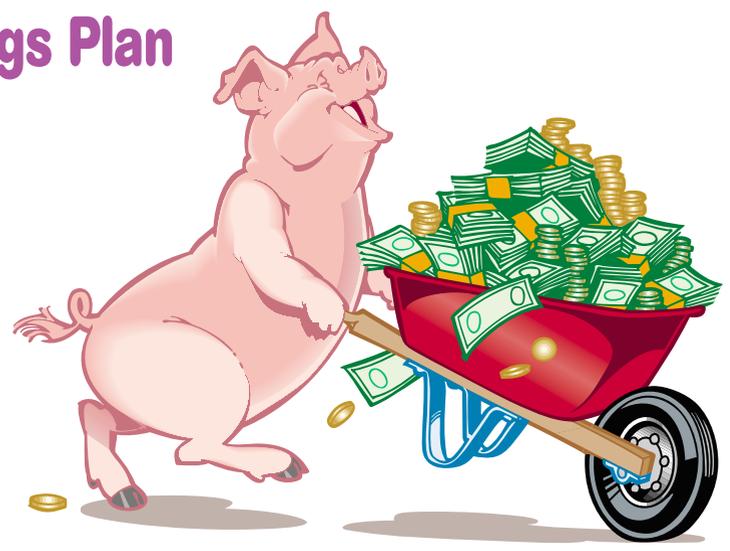
### PARENT OPTION

Visit two banks in your area and ask these questions about savings accounts:

1. How do you open a savings account?
2. What other banking services do they offer?
3. Do they charge additional fees?
4. Do they require a minimum balance?
5. What is the current rate of interest they pay on savings?
6. How often is interest compounded on their accounts?

Encourage your child to open a savings account and make regular deposits. Often it is easier to save when they have a savings goal.

## My Savings Plan



Select an item advertised in the newspaper that you would like to purchase for yourself or for someone else – but you don't have enough money to make the purchase now.

I want to buy \_\_\_\_\_ for \_\_\_\_\_.

The price is \_\_\_\_\_.

I plan to save my money for this item

\_\_\_ in a savings account.

\_\_\_ in my piggy bank or jar at home.

\_\_\_ in \_\_\_\_\_.

The money I save will come from:

\_\_\_ my allowance.

\_\_\_ money I earn from doing extra chores.

\_\_\_ money I get as a gift.

\_\_\_ other \_\_\_\_\_.

I will need to save \$ \_\_\_\_\_ each week for \_\_\_\_\_ weeks to make my purchase.

Coming next week: Investing