



Pay Yourself First

FDIC Money Smart for Young Adults



Building: Knowledge, Security, Confidence

Purpose

- **Help you identify ways to save money**
- **Introduce savings options to use to save toward your goals**



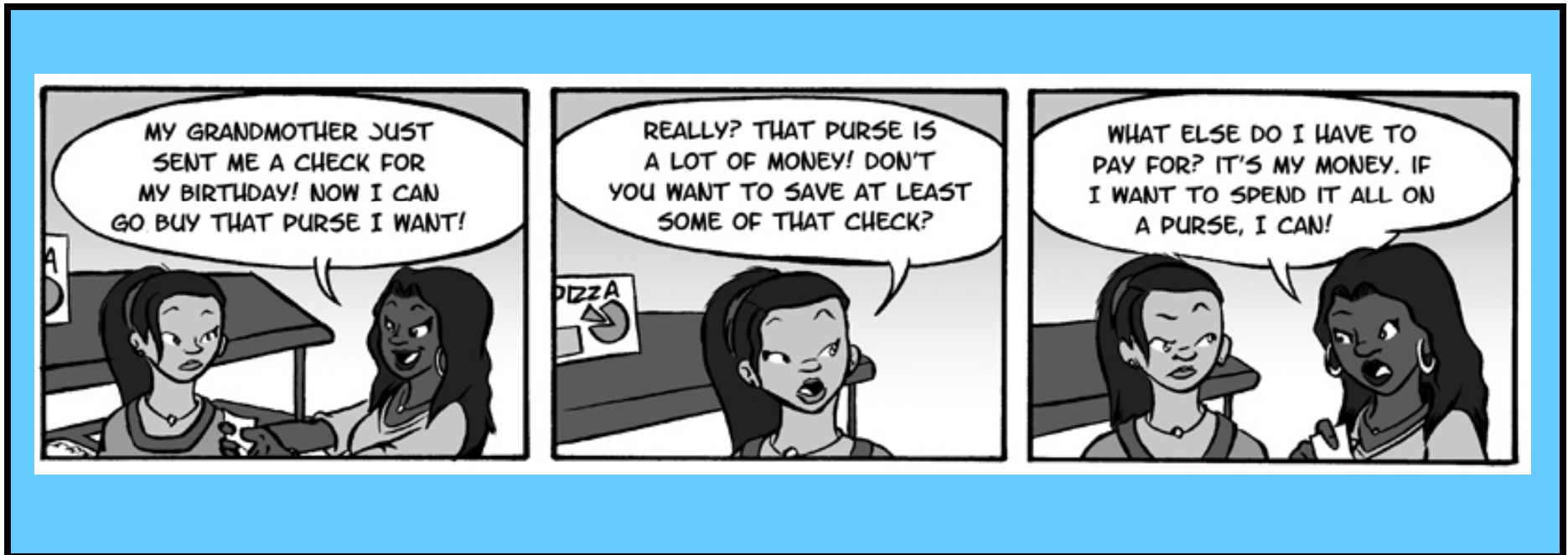
Objectives

By the end of this module you will be able to:

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



Would you Spend it or Save it?



Pay Yourself First

- **Put some of the money from your paycheck in a savings account**
- **Save before paying bills**



Benefits of Paying Yourself First

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



Activity 1: Pay Yourself First Worksheet

Complete Activity 1 in your Participant Guide

- Take a few minutes to think about your savings goals
- What might you need money for in the future?
- Write it down
- Only complete the top half of the worksheet



Activity 2: Savings Tips

Complete Activity 2 in your Participant Guide

- Review the Saving Tips
- Go back to your Pay Yourself First Worksheet
- Fill in the bottom half with ways you plan to save



INTEREST

- An amount of money banks pay you for keeping money on deposit with them
- Expressed as a percentage



Compound Interest

- **Money you earn on the previously paid interest in your account**
- **Can be compounded daily, monthly, or annually**



Activity 3: Interest

Complete Activity 3 in your Participant Guide

- Annual vs. Daily Compounding chart
- Compounding Interest Over Time chart



Activity 4: Saving \$1 and \$5 a day

Complete Activity 4 in your Participant Guide

- Saving \$1 a Day
- Saving \$5 a Day
- How much money can be made by saving a small amount each day?



Saving \$1 a Day

| | No Interest | 5% Daily Compounding |
|----------------|-----------------|----------------------|
| Year 1 | \$365 | \$374 |
| Year 5 | \$1,825 | \$2,073 |
| Year 10 | \$3,650 | \$4,735 |
| Year 30 | \$10,950 | \$25,415 |



Saving \$5 a Day

| | No Interest | 5% Daily Compounding |
|----------------|-----------------|----------------------|
| Year 1 | \$1,825 | \$1,871 |
| Year 5 | \$9,125 | \$10,366 |
| Year 10 | \$18,250 | \$23,677 |
| Year 30 | \$54,750 | \$127,077 |



Annual Percentage Yield (APY)

- **The amount of interest you earn on a yearly basis**
- **Expressed as a percentage**
- **The more often your money compounds, the higher the APY**
- **Compare the APYs of different accounts, not the interest rate**



Annual Percentage Yield (APY)

$$APY = 100 \left[\left(1 + \frac{\text{Interest}}{\text{Principal}} \right)^{\text{Days in Term}} - 1 \right]$$

Principal amount of funds assumed to have been deposited at the beginning of the account

Interest total dollar amount of interest earned on the Principal for the term of the account

Days in term the actual number of days in the term of the account



The Rule of 72

INTEREST

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

Lets you know:

- How long it will take for your savings to double in value
- What interest rate you need to earn to double your money in a set number of years



Two Ways to Save

- **Open a savings account**
- **Buy an investment**



Savings Accounts



- **Earn interest**
- **Give you easy access to your money**
- **Are federally insured by the FDIC or NCUA**



Activity 5: Four Savings Products

Complete Activity 5 in your Participant Guide

Select one of the following:

- Statement Savings Account
- Club Account
- Money Market Account
- Certificate of Deposit (CD)



Activity 6: Special Accounts

Complete Activity 6 in your Participant Guide

Fill in the blank with either:

- Individual Development Account (IDA)
- 529 College Savings Plan



Investments

- Long-term savings options purchased for future income or financial benefit
- Are NOT federally insured
- Are riskier than deposit accounts
- Usually give you a higher rate of return than deposit accounts



Investment Products

- **Bonds**
- **Stocks**
- **Mutual funds**
- **Retirement investments**



Activity 7: EE Bonds

Complete Activity 7 in your Participant Guide

- Read the information about the EE bonds
- Respond to the questions and discuss with the class



Activity 8: Investment Products

Complete Activity 8 in your Participant Guide

- Review the material to learn more about investment products
- Present your Investment Product to the class



Activity 9: Investment Issues to Consider

Complete Activity 9 in your Participant Guide

- Review the strategies that will help you choose the best investment



Other Investments

- **Owning a home**
- **Owning a business**



Decision Factors

- How much do you want to accumulate?
- How long can you leave your money invested?
- How do you feel about risking your money?



Activity 10: Pay Yourself First Action Plan



Complete Activity 10 in your Participant Guide

- Write down the action steps you intend to take
- How can you save toward your goals?



CONCLUSION: Would you Spend it or Save it?



Pay Yourself First

Congratulations! You have completed the *Pay Yourself First* module. You have learned about:

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



Assess Your Knowledge

**Don't forget to complete the
Knowledge Check in your
Participant Guide.**

