CHOOSING TO SAVE

COURSE FLOW CHART

- ✓ 

Goals & Vision
- ✓ 
Career Choice & Research
- ✓ 
College & Certificates
- ✓ 
Resume & Job Interviews
- ✓ 
Choosing an Offer
- ✓ 

Paycheck & Taxes
- ✓ 
Budget & Retirement Planning
- 
Savings & Investing
- 
Credit Cards & Debt/Bankruptcy
- 
Scams & Identity Theft
- 
Auto/Housing Insurance & Loans

HOW MUCH TO SAVE?
60-20-10-10 RULE

1. UP! Video - Life

WHAT DOES THIS STATEMENT MEAN TO YOU?

"Today's Self has an Impact on Future Self"

SAVING VS. INVESTING

Savings

Portion of current income not spent on consumption

Investing

Purchase of assets with the goal of increasing future income

WHY ARE SAVING & INVESTING IMPORTANT?

Savings

Provides the foundation for **financial security**

Investing

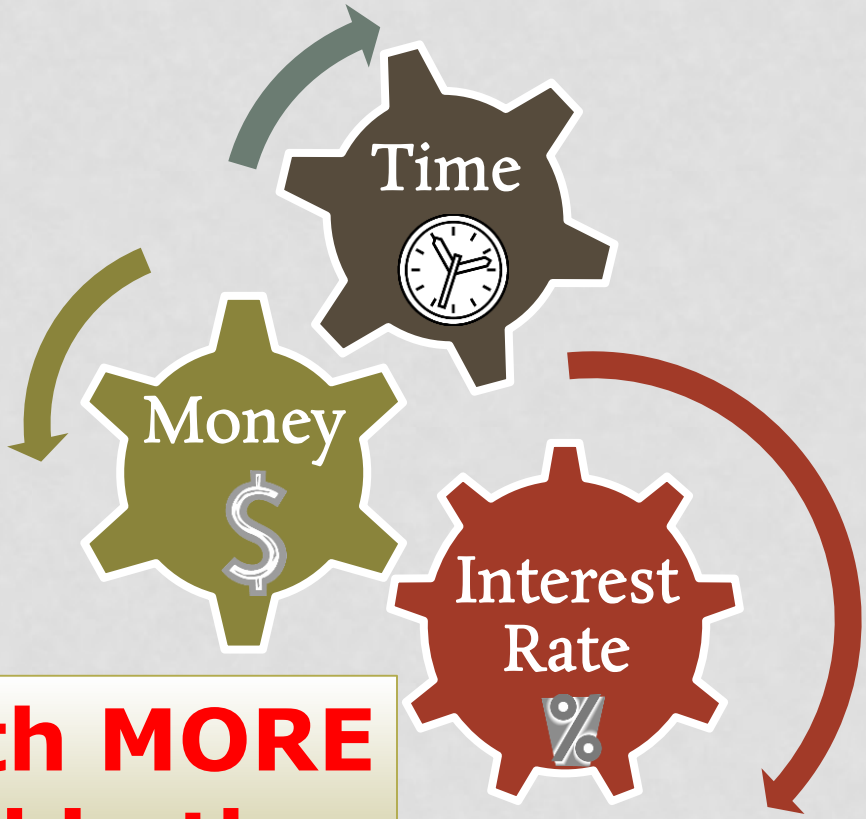
Enhances and helps build **wealth**

SAVING MATH

- Jane wants to buy a new computer in the next few months. She'll need $2,000 and already saved $200. If she saves $150 each month, how long will it take her to save the entire $2,000?
  - Start with the goal, subtract what your starting with and divide the remaining into how much you can save each month
- 2000 – 200 = 1800 / 150 = **12 months**

TIME VALUE OF MONEY

Three factors affect how an investment will grow.



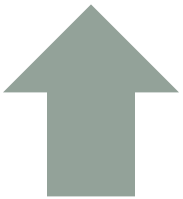
$1.00 today is worth MORE than $1.00 received in the future

INTEREST RATE

Interest is the price of money.

Interest rate is the percentage rate paid on the money invested or saved

HOW DO INTEREST RATES AFFECT TIME VALUE OF MONEY?



Interest Rate = More Money

$1,000 invested for 5 years	
Interest Rate	Amount Investment is Worth
1%	$1,051
3%	$1,159
5%	$1,276
7%	$1,402
9%	$1,538

SIMPLE INTEREST VS. COMPOUNDING INTEREST

Simple Interest

- Interest earned on the principal investment

Compounding Interest

- Earning interest on interest

Principal the original amount of a loan on which interest is paid

SIMPLE INTEREST EQUATION: STEP 1

(Principal) × (Interest Rate) × (Time Period) = (Interest Earned)

$1,000 invested at 7% interest rate for 5 years

$1,000 × .07 × 5 = $350

SIMPLE INTEREST MATH

- Bob has a $250,000 mortgage loan at 3.4% interest for 30 years. What is the total cost of his house?
  - Principle X Rate X Time
- 250,000 X .034 X 30 = **255,000**

COMPOUNDING INTEREST EQUATIONS

Compounding Interest is earning Future Interest on Past Interest payments.

Creates exponential growth (snowball).

Must leave the money in the account for as long as possible in order to maximize growth.

COMPOUNDING VS. SIMPLE INTEREST

Simple Interest = $1,350

Compounding Interest for a Single Sum = $1,402.55

Why?

By reinvesting the interest earned, the interest payment keeps growing as interest is compounded *on interest*

SINGLE SUM VS. INVESTMENTS OVER TIME

Compounding Interest for a Single Sum = $1402.55

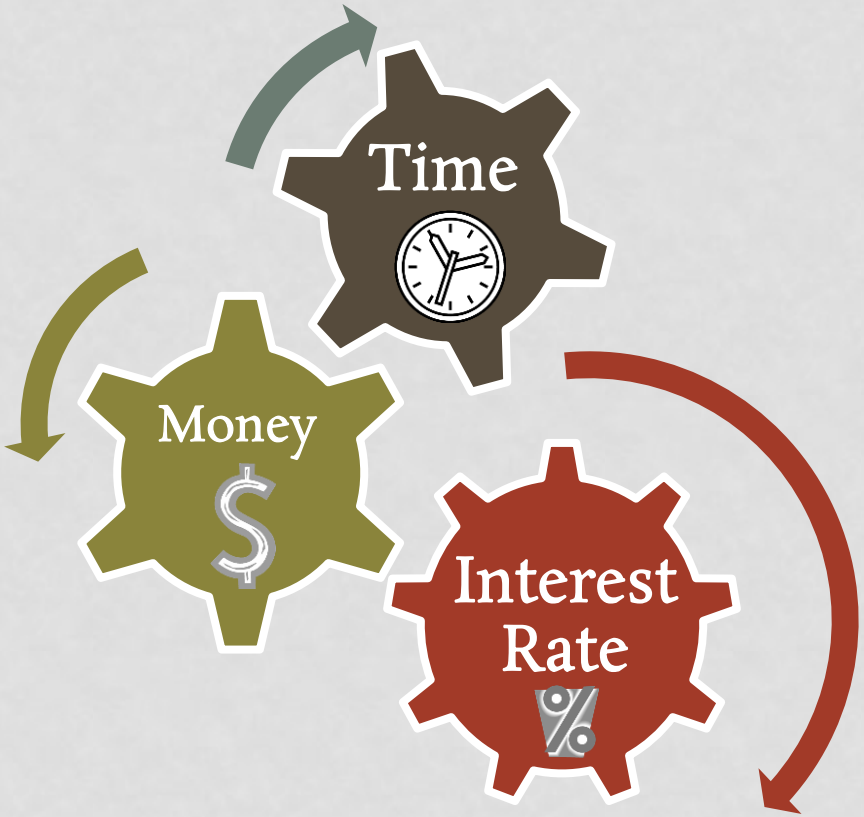
Compounding Interest for Investments Over Time = $5750.74

To make the most of your money, utilize **compounding interest** and continue to invest!

TIME

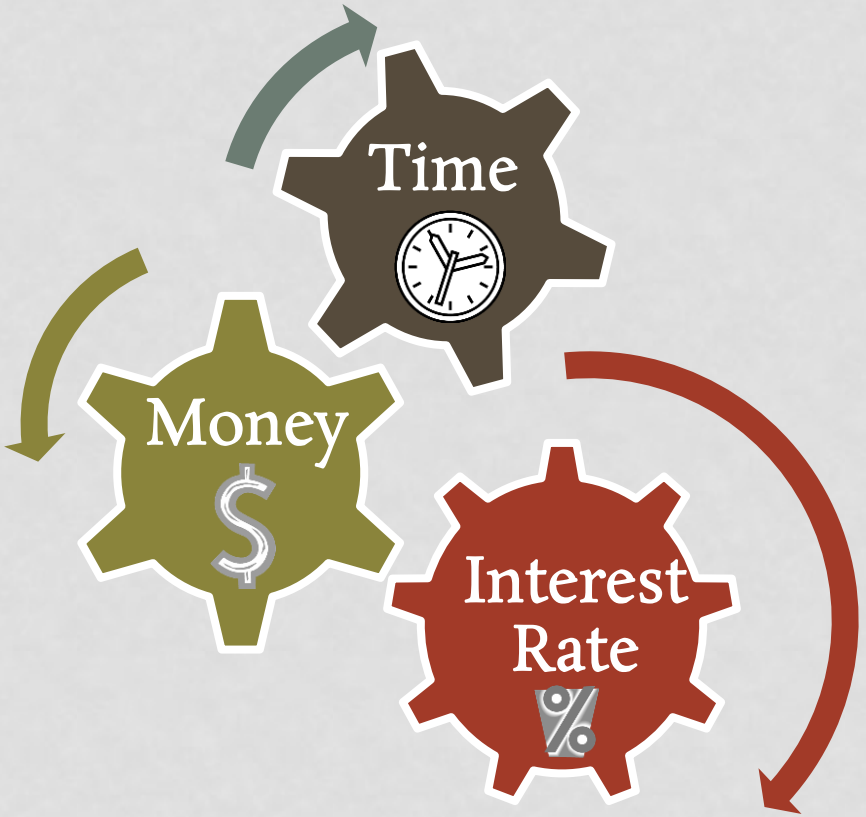
HTTP://WWW.HELPFULCALCULATORS.COM/COMPOUND-INTEREST-CALCULATOR

The longer an individual invests, the more time their investment has to compound interest and increase in value.



AMOUNT OF MONEY

The larger the amount of money invested, the larger the return on investment will be



TRADE-OFFS & OPPORTUNITY COSTS

By analyzing trade-offs and the opportunity cost of those trade-offs, goals become more attainable and realistic

MAKE SAVING AND INVESTING AUTOMATIC

- Saving and investing should be considered a fixed expense that is automatic
- **Pay Yourself First (PYF)** is a saving strategy that means to put money in your savings account before paying bills.
  - You should consider savings to be a fixed expense
- **Recurring** payments that move money into your savings accounts automatically.

HOW MUCH TO SAVE?
60-20-10-10 RULE

1. Save 20% of net income in a **Savings Account** until first $1,000 "Rainy Day/Opportunity Fund" and at least 3 months of expenses are reached
2. Invest 10% of income for Retirement and to increase wealth
3. Spend 10% on Charitable Causes

Utilize the time value of money to your greatest advantage

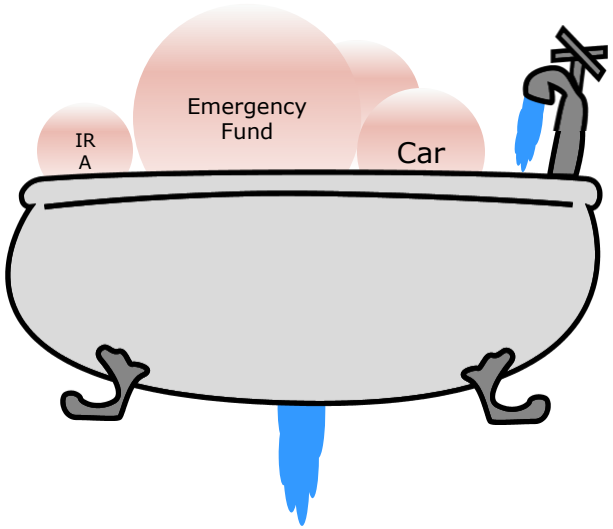
Liquidity = how accessible funds are

* Percentages will change depending on life stage

BUBBLE BATH

20% & 10% is being captured in your bathtub.
The “bubbles” are for different priorities.

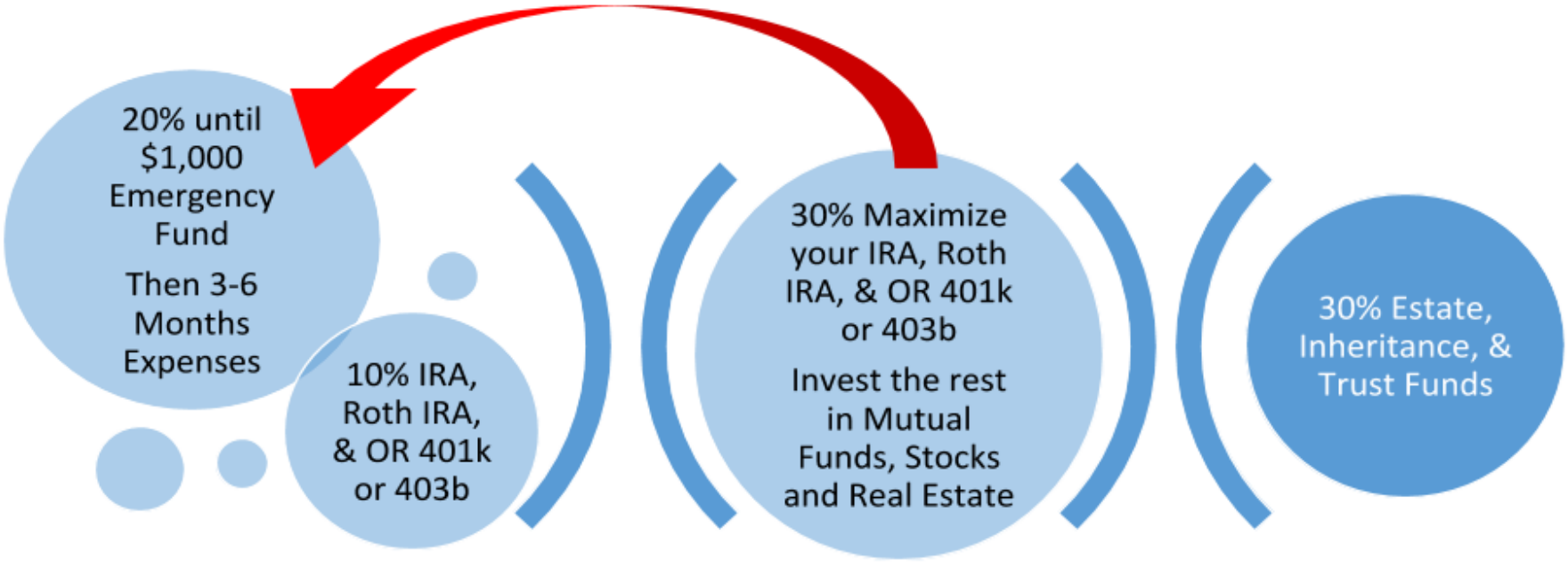
- Emergency Fund
- Moving out expenses (transportation, first/last month's rent, security deposit, furnishings)
- 3-6 Months Expenses
- Retirement (401k, Roth IRA, Mutual Funds)
- House Downpayment
- Car (purchase/down payment)
- Wedding Ring/Honeymoon
- Vacation
- Religious Service/Mission
- Birthday/Holiday Gift purchases
- College Savings
- Jewelry/Precious Metals
- Real Estate/Land
- Investments (stocks, bonds, funds)
- New Technology (phone/computer replacements)
- Etc



PRO-TIP

- How much does a vacation cost?
- You have a vacation calculator on your electronic budget that you can use to find out how much you need to save for a vacation.

Financial Success Process



Beginning Financial Steps

Time-Value-of-Money requires that you complete this level as quickly as you can.

Financial Growth

Divide the 30+% among the growth options. Maximize your Retirement savings.

Re-fund your 3-6 Months Expenses as your income or risk increases.

Fully Funded Retirement

Boat, RV, ATV, Plane, Jewelry, Travel, etc.