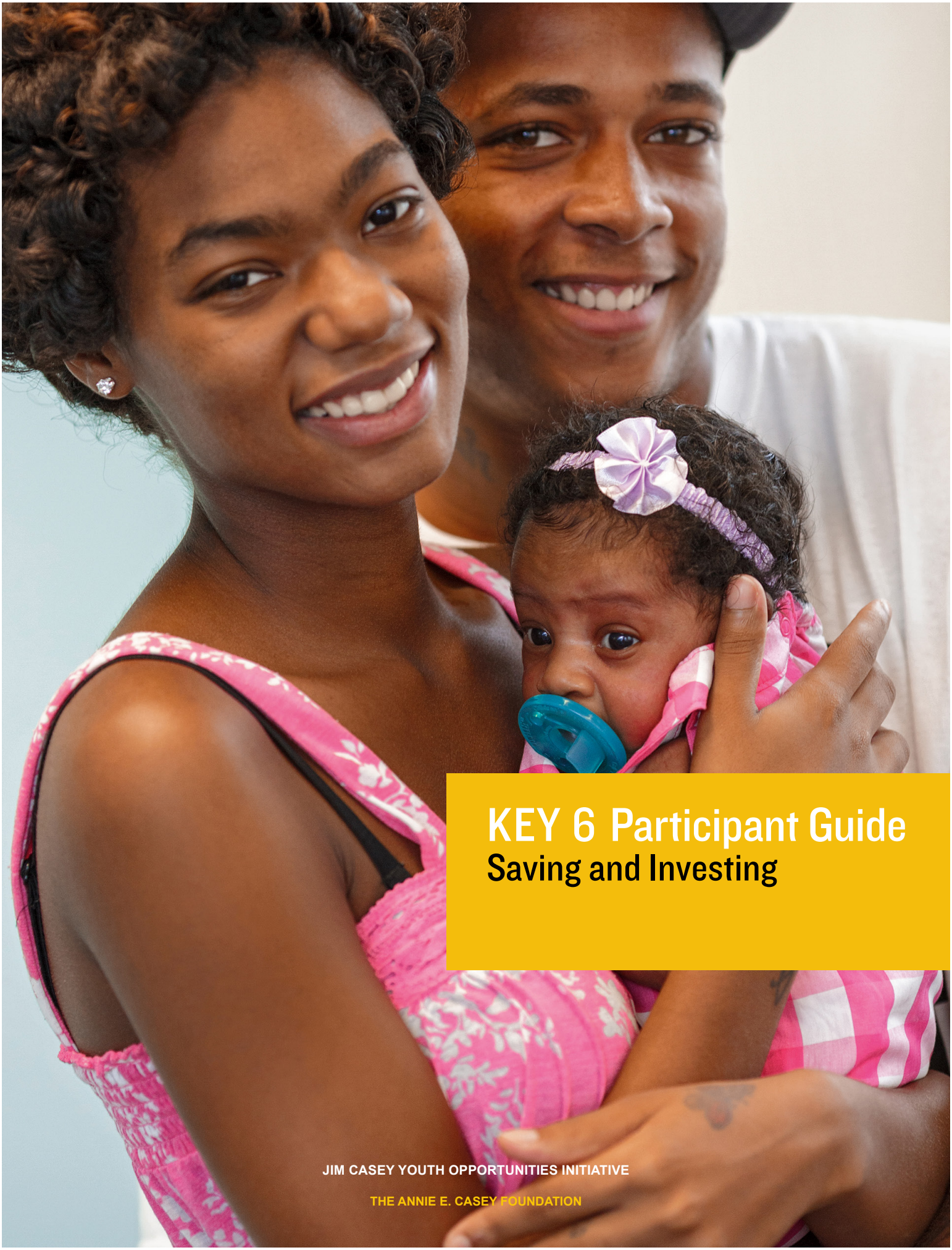


KEY 6 Participant Guide
Saving and Investing

JIM CASEY YOUTH OPPORTUNITIES INITIATIVE

THE ANNIE E. CASEY FOUNDATION

KEY 6

Saving and Investing

"Saving and Investing" is the sixth key in *Keys to Your Financial Future,* a financial capability curriculum for young people. This key covers the basics of saving and investing, including how to find money to save and where to save and invest. Key 6 also examines the relationship between risk and return, how to lessen different types of risk, understanding the time value of money and how compounding works.

What You'll Find in This Key

What You're Going to Know or Be Able to Do

By the end of this key, you'll know or be able to do the following:

- ☐ **DIFFERENTIATE** between saving and investing.
- ☐ **LIST WAYS** to find money to save in your budget and identify strategies that will work for you.
- ☐ **EXPLAIN** where you can save and where you can invest.
- ☐ **DEFINE** key terms about saving and investing.
- ☐ **EXPLAIN** inflation and the reasons it's important to understand when saving and investing.
- ☐ **EXPLAIN** the time value of money and compounding.

KEY Concept

THE ROLE OF SAVING IN INVESTING

People use the terms saving and investing interchangeably. Are they the same? No.

Whether you put money into a savings account or a mutual fund, you must save money first. This means you must decide to set it aside — not spend it on other things — for use later.

SAVING VS. INVESTING

Are **saving** and **investing** the same thing? They are similar, but different.

Before you put money into savings or invest money, you must save. Saving money means setting aside income today for use at some time in the future. It means not spending a portion of the money you have now.

Saving can be hard. You may not have enough income to cover your *needs, obligations or wants*. You may have never saved money before. Or you may not want to save right now.

And with the money you have saved, you need to decide if you want to put it into a savings or investment vehicle.

KEY ACTIVITY

The Difference Between Saving and Investing

List the differences between saving and investing.

SAVING	INVESTING

Savings vehicles do not earn much interest. But they offer safety. With money in a federally insured bank or credit union, principal cannot be lost (if you stay within the insurance limits).

When people invest their money, they expect larger returns. They expect their money to earn more money. For the opportunity to earn larger returns, they are generally taking on more risk.

KEY ACTIVITY

Where Do People Save and Invest?

List where people save and where people invest their money.

SAVE	INVEST

The most common types of savings vehicles are:

- ☐ **Savings accounts** (also called share accounts in credit unions) — Savings accounts are deposit accounts at banks or credit unions. Interest is earned on savings accounts, but currently the rate is very low (generally less than 1 percent).
- ☐ **Certificates of deposit (CDs)** — CDs are savings vehicles into which money is deposited for a fixed time period at a fixed return. The higher the amount invested and the longer the time period, the higher the interest rate you will earn.
- ☐ **Money market deposit accounts** — Money market deposit accounts are interest-bearing savings accounts with limited transaction privileges (six withdrawals with no more than three as checks), higher minimum balance requirements and higher rates of interest than a savings account.

KEY Concepts

SECURITIES

Securities are issued by companies or governments. They give the holder ownership rights, debt rights and the right to trade and sell them. Bonds and stocks are examples of securities.

WHAT ABOUT INDIVIDUAL RETIREMENT ACCOUNTS?

You may be wondering why individual retirement accounts (IRAs) and 401(k)s are not listed with the securities. This is because retirement savings is a designation of your savings. Once you decide that you are going to put some of your savings away for retirement, you still must choose the savings or investment vehicle for that money.

For example, if you set up an IRA with a bank, a mutual fund company or a brokerage firm, you still must decide where to put that money: into a savings account, a certificate of deposit or a specific mutual fund.

The most common kinds of investment vehicles are:

- **Money market mutual fund** — A money market mutual fund is a mutual fund made up of short-term debt securities that mature in less than 13 months. This limits the risk of these funds. These are not FDIC insured although they are generally considered very low risk and may be available from banks and credit unions.

- **Treasury securities** — The U.S. Treasury issues securities to raise the money needed to operate the federal government and to pay off its debt. They are generally considered safe because *"the full faith and credit of the U.S. government"* guarantees interest and principal payments will be paid on time. Common treasury securities are savings bonds, treasury bills, treasury notes, treasury bonds and TIPS. (See www.treasurydirect.gov for more information on Treasury securities.)

- **Bonds** — Bonds are issued when governments (federal, state or city) or corporations need to borrow money. They agree to pay back the money they borrow from you at a certain date in the future with interest. Some bonds carry very little risk. Some bonds are risky.

- **Stocks** — Stocks are investments that represent ownership in a company. When you invest in a stock, you are getting equity in a company.

- **Mutual funds** — Mutual funds are pools of money managed by professionals. The managers invest the money in stocks or bonds; you buy shares in the mutual fund. Mutual funds are actively managed, and fund companies charge fees for the services they provide. Mutual funds are traded once at the end of the trading day based on net asset value.

- **Exchange-traded funds (ETFs)** — ETFs are funds that track an index. They are not actively managed like mutual funds. They have lower operating and transaction costs compared with mutual funds. They can also be traded like stocks.

These products are sold directly by corporations, brokerage firms, financial advisors, the federal government, banks, credit unions and mutual fund companies.

FOUNDATION FOR SAVING AND INVESTING

No matter where you put your money, it is important to think about the reason you are saving or investing. In fact, your reason or goal is one of the foundations of saving and investing.

Why do goals matter in saving and investing? Goals help you determine how much money you need. Go back to the goals you wrote in Key 1. These are your reasons for saving and investing.

Secondly, you will need to determine when you need the money. This is your time frame. If you have written SMART goals, your time frame is included in the goals.

Finally, your **risk tolerance** will screen in or out certain kinds of savings and investment vehicles. If you are not comfortable now with risking the money you invest, you may want to go with savings vehicles. How do you find your risk tolerance? There are many online instruments that can help you assess your risk.

If you have a high stakes goal and a short time frame, savings vehicles will ensure that the money you save is there when you need it. The market can change, or fluctuate a lot. Many financial advisors recommend thinking about investing for longer-term goals — where you may not need the money for years. If the market falls and stocks (or mutual funds or other investment vehicles) drop in value, then you have time to make up the loss.

KEY Concept

FOUNDATION FOR SAVING AND INVESTING

Before putting your money in a savings or investment vehicle, answer these questions:

1. What are you investing for and how much do you need? This is your goal.
2. When do you need that money? This is the time frame.
3. How much risk can you take? This is your risk tolerance.

The answers to these questions help determine where to save or invest your money.

KEY ACTIVITY

Alejandro Plans to Save or Invest

Read the following and answer the questions that follow it.

Alejandro is 18 years old and in care. He wants to save for trade school — his goal is to become an electrician. He has estimated that the Chafee ETV program plus some additional state funding will cover his tuition, fees and books. He wants to save for his own equipment as well as living expenses while studying.

He has taken a risk tolerance assessment and knows he has an above average tolerance for risk.

He will graduate from high school in 15 months. Through his part-time job, he thinks he can save about $200 per month. He is trying to decide between a savings account and shares of stock in a popular social media company.

A savings account will earn 1 percent. He can buy stock for $51 per share. He figures it will only go up and that he can sell it in 15 months for a profit.

What is his goal?

When does he need the money?

What is his tolerance for risk?

Where should Alejandro put his $200 savings each month?

KNOW THE LINGO: SAVING AND INVESTING

While there are many technical terms used in the saving and investing profession, following are ones you should know to start:

- ☐ **Principal** — the money you put into savings or investments.
- ☐ **Returns** — what you earn on the money you save or invest.

And there are three common types of returns:

- ☐ **Interest** — amount agreed by a bank, credit union, corporation or government to be paid for the use of your money. This is expressed as a percentage.
- ☐ **Dividends** — a portion of a corporation's profits given back to shareholders. Dividends can be cash or more shares.
- ☐ **Increased share value** — the amount you earn because the market value of your share is greater than what you paid for it. Increases in share value raise your portfolio value but only create income or cash if you sell them.

KEY Concept

INVESTING UNDER 18

As with most accounts at banks and credit unions, you cannot invest unless it is through a parent, guardian or another adult before you are 18 or the age of majority in your state.

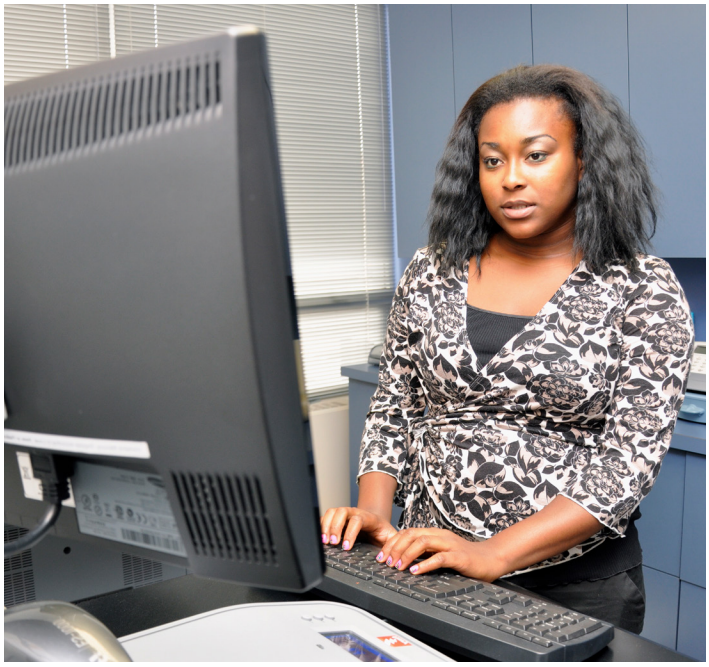
Principal is considered "safe" in savings because deposits in banks and credit unions are generally insured. These include savings accounts, checking accounts, certificates of deposit and money market deposit accounts.

How do you know if a bank or credit union is insured? If it is a bank, it will display the FDIC logo on its front door and all its publications. FDIC stands for the Federal Deposit Insurance Corporation. Similarly, credit unions will have the NCUA logo. NCUA stands for National Credit Union Administration, which administers the National Credit Union Share Insurance Fund (NCUSIF).

Your deposits will be insured up to $250,000 per account ownership category at any one institution.

Where is your principal at risk? Technically every investment carries the risk of principal loss. Some investment vehicles like U.S. savings bonds have very little risk, though.

If you invest through a brokerage and it *fails*, AND it is insured by **SIPC** (Securities Investor Protection Corporation), you may be able to recover some of your losses. Generally, the maximum is $500,000 with $100,000 for cash claims. However, you can never recover losses due to market changes through insurance.



FINDING MONEY TO SAVE

Before you save OR invest, you must find money to save. People who save successfully think about ways to make it automatic — you make the decision to save one time and then set up a system to make that happen. When selecting your savings strategies, see if you can find ways to automate your savings.

Here is a list of some ways to save for your goals even if you don't have a job or regular income:

- ☐ **Keep the change.** Designate a jar or box. Put all your change into this jar or box at the end of each day. Count it after one month. You may be surprised to see how quickly your change can add up.

- ☐ **Commit to saving in advance.** Decide that you will save 25 percent of all money you get in advance. If you get $10 from a family member or friend as a gift, you put $2.50 into your savings jar or account.

- ☐ **Use direct deposit.** If you have a job, have your paycheck deposited into a checking account and have a portion of that transferred to a savings account automatically every pay period.

- ☐ **Cut back your spending on one thing** — coffee, meals out or music purchases — and redirect those funds to saving.

- ☐ **Shop smart.** Look for generic instead of brand-name items. Use a shopping list — if it's not on the list, don't get it. Wait 24 hours before making any big purchases. Think about the following: Do you need the item? Will it help you reach your goals or your vision? ***Save your savings from shopping smart.***

KEY Concept

SUCCESSFUL SAVING

People that save figure out ways to make their savings automatic. What does this mean? They generally decide once and set up a system that enables them to save without thinking about it.

Direct deposit is one way to do this, but you must have a regular paycheck for direct deposit. You can have your paycheck automatically put into a savings account or split between savings and checking. You can also have your paycheck directly deposited onto a payroll card or prepaid card (prepaid debit card or reloadable prepaid card) if you don't have a bank account. Some of these have a savings or purse feature.

You can also set up rules for yourself. For example, your rule could be to save 10 percent of any income you receive.

- ☐ **Pay your bills on time.** This will keep you from paying fees. Set up **automatic bill payment** for bills you pay regularly using online banking services. This will keep you from being late. But, make sure you have enough money in your account when the bills are due. The money is automatically deducted from your **checking account** or **prepaid card**.

- ☐ **Save unexpected income.** If you get a gift, overtime pay or a **tax refund** you have not already budgeted, save that money.

- ☐ **Make a commitment to yourself.** Commit yourself to saving for your goals. This will help you lead the life you envision for yourself.

- ☐ **Other ideas for finding money to save for your goals:**

KEY ACTIVITY

Savings Strategies That Work for You

Review the list of saving strategies. Check three strategies you think could work for you.

THE TIME VALUE OF MONEY

The basic idea behind the time value of money is that money today is worth more than money in the future — $100 today is better than $100 a year from today.

What is the reason money today is better than money in the future?

KEY Concept

WHAT IS INFLATION?

Inflation is something you may understand from the news. Or from having purchased things from year to year. But you may not have ever really understood the definition of it. Inflation is the gradual increase in prices. In the United States, the inflation rate on average is 3 percent a year. Due to inflation, one dollar buys less than it did the year before.

What is behind inflation? Many things. One key reason has to do with the price of raw materials. For example, if the price of barrels of oil goes up, then the cost of gasoline will rise and every business that uses gasoline will experience an increase in costs. Then, they increase the price of what they sell to the end consumer to cover the rise in their costs.

A dollar today is worth less than a dollar 10 years ago because of inflation. For example, if something cost $100 in 1999, that same item today would cost around $150. Alternatively, something that costs $100 today could have been purchased for $66 in 1999.‡

Another reason money today is better than money next year is that you have a whole year to save or invest and earn money on those funds received today. And those earnings can be reinvested one year from now.

‡ Calculated using the inflation calculator at www.westegg.com.

COMPOUND YOUR MONEY

Returns from money in savings or investments reinvested earn more. This is called compounding. **Compounding** works *for you*. Compounding returns and time earn money when saving and investing.

If you leave the money alone, the returns you have earned get added back into the principal. Then your principal, plus the returns, earns more. The longer time you leave your money in a savings or an investment account, the more this happens —

the more the returns compound. This is how money makes money. Finally, the more often money compounds and the earlier the money is put into savings or investments to compound, the better.

Money can compound on a daily, monthly or quarterly basis. Money that compounds monthly will earn more than money that compounds quarterly. And money that compounds daily (or continuously) will earn more than money compounded monthly.

KEY ACTIVITY

Jordan and Jeremiah Learn About Compounding

Jordan and Jeremiah each have $1,000 to deposit into an account. Jordan found a savings account that earned 2 percent with compounding quarterly. Jeremiah found a savings account that earned 2 percent with compounding monthly. Compare their returns after 12 months.

JORDAN'S SAVINGS ACCOUNT		
Principal	Earnings	Total
$ 1,000.00	$ 12.50	$ 1,012.50
$ 1,012.50	$ 12.66	$ 1,025.16
$ 1,025.16	$ 12.81	$ 1,037.97
$ 1,037.97	$ 12.97	$ 1,050.95
	$ 50.95	

JEREMIAH'S SAVINGS ACCOUNT		
Principal	Earnings	Total
$ 1,000.00	$ 4.17	$ 1,004.17
$ 1,004.17	$ 4.18	$ 1,008.35
$ 1,008.35	$ 4.20	$ 1,012.55
$ 1,012.55	$ 4.22	$ 1,016.77
$ 1,016.77	$ 4.24	$ 1,021.01
$ 1,021.01	$ 4.25	$ 1,025.26
$ 1,025.26	$ 4.27	$ 1,029.53
$ 1,029.53	$ 4.29	$ 1,033.82
$ 1,033.82	$ 4.31	$ 1,038.13
$ 1,038.13	$ 4.33	$ 1,042.46
$ 1,042.46	$ 4.34	$ 1,046.80
$ 1,046.80	$ 4.36	$1,051.16
	$ 51.16	

Who earned more?

How much more? Why?

What could make the amount earned increase?

Money invested earlier has more opportunities to compound and will earn more.

KEY ACTIVITY

Haruto and Hailey Learn About Saving Early

Haruto and Hailey both participated in the financial capability training. Inspired by what he learned, Haruto started saving and investing right away at age 18. Hailey wanted to take care of other things, and she didn't start saving and investing until she was 30.

They each invested $500 per year and earned on average after fees 5 percent.

HARUTO			
Age	Principal	Earnings	Total
18	$ 500.00	$ 25.00	$ 525.00
19	$ 1,025.00	$ 51.25	$ 1,076.25
20	$ 1,576.25	$ 78.81	$ 1,655.06
21	$ 2,155.06	$ 107.75	$ 2,262.82
22	$ 2,762.72	$ 138.14	$ 2,900.96
23	$ 3,400.96	$ 170.05	$ 3,571.00
24	$ 4,071.00	$ 203.55	$ 4,274.55
25	$ 4,774.55	$ 238.73	$ 5,013.28
26	$ 5,513.28	$ 275.66	$ 5,788.95
27	$ 6,288.95	$ 314.45	$ 6,603.39
28	$ 7,103.39	$ 355.17	$ 7,458.56
29	$ 7,958.56	$ 397.93	$ 8,356.49
30	$ 8,856.49	$ 442.82	$ 9,299.32
31	$ 9,799.32	$ 489.97	$ 10,289.28
32	$ 10,789.28	$ 539.46	$ 11,328.75
33	$ 11,828.75	$ 591.44	$ 12,420.18
34	$ 12,920.18	$ 646.01	$ 13,566.19
35	$ 14,066.19	$ 703.31	$ 14,769.50
36	$ 15,269.50	$ 763.48	$ 16,032.98
37	$ 16,532.98	$ 826.65	$ 17,359.63
38	$ 17,859.63	$ 892.98	$ 18,752.61
39	$ 19,252.61	$ 962.63	$ 20,215.24
40	$ 20,715.24	$ 1,035.76	$ 21,751.00
	$ 11,500.00	$ 10,251.00	
	Total Principal	Total Earnings	

HAILEY			
Age	Principal	Earnings	Total
18	$	$ -	$ -
19	$	$ -	$ -
20	$	$ -	$ -
21	$	$ -	$ -
22	$	$ -	$ -
23	$	$ -	$ -
24	$	$ -	$ -
25	$	$ -	$ -
26	$	$ -	$ -
27	$	$ -	$ -
28	$	$ -	$ -
29	$	$ -	$ -
30	$ 500.00	$ 25.00	$ 525.00
31	$ 1,025.00	$ 51.25	$ 1,076.25
32	$ 1,576.25	$ 78.81	$ 1,655.06
33	$ 2,155.06	$ 107.75	$ 2,262.82
34	$ 2,762.82	$ 138.14	$ 2,900.96
35	$ 3,400.96	$ 170.05	$ 3,571.00
36	$ 4,071.00	$ 203.55	$ 4,274.55
37	$ 4,774.55	$ 238.73	$ 5,013.28
38	$ 5,513.28	$ 275.66	$ 5,788.95
39	$ 6,288.95	$ 314.45	$ 6,603.39
40	$ 7,103.39	$ 355.17	$ 7,458.56
	$ 5,500.00	$ 1,958.56	
	Total Principal	Total Earnings	

How much did Haruto save and then invest (principal)? How much did he earn?

How much did Hailey save and then invest (principal)? How much did she earn?

Haruto invested nearly twice as much as Hailey but earned nearly five times the amount. Why?

It may seem that the difference in earnings is because of the amount of principal invested. This does have an impact. But suppose Hailey invested at 30 the same amount as Haruto had up to that point in time — $6,000. Would their earnings be the same then?

An additional $6,000 invested to "catch up"

HAILEY			
Age	Principal	Earnings	Total
18	$	$ -	$ -
19	$	$ -	$ -
20	$	$ -	$ -
21	$	$ -	$ -
22	$	$ -	$ -
23	$	$ -	$ -
24	$	$ -	$ -
25	$	$ -	$ -
26	$	$ -	$ -
27	$	$ -	$ -
28	$	$ -	$ -
29	$	$ -	$ -
30	$ 6,500.00	$ 325.00	$ 6,825.00
31	$ 7,325.00	$ 366.25	$ 7,691.25
32	$ 8,191.25	$ 409.56	$ 8,660.81
33	$ 9,100.81	$ 455.04	$ 9,555.85
34	$ 10,055.85	$ 502.79	$ 10,558.65
35	$ 11,058.65	$ 552.93	$ 11,611.58
36	$ 12,111.58	$ 605.58	$ 12,717.16
37	$ 13,217.16	$ 660.86	$ 13,878.01
38	$ 14,378.01	$ 718.90	$ 15,096.92
39	$ 15,596.92	$ 779.85	$ 16,376.76
40	$ 16,876.76	$ 843.84	$ 17,720.60
	$ 11,500.00	$ 6,220.60	
	Total Principal	Total Earnings	

Why does Hailey STILL earn less than Haruto even though they invested the same amount of money?

WRAP UP:
Saving and Investing

Congratulations on finishing this section of ***Keys to Your Financial Future***.

Let's check what you learned:

1. There is no difference between saving and investing.
   - ☐ True ☐ False

2. A stock is an example of a savings vehicle. Your principal is always safe with a stock.
   - ☐ True ☐ False

3. When you put money into a savings account or investment, you are generally building your net worth.
   - ☐ True ☐ False

4. The foundation for saving and investing is your goal, when you need the money and your risk tolerance.
   - ☐ True ☐ False

5. Returns from saving or investing include:
   - ☐ a. Interest
   - ☐ b. Dividends
   - ☐ c. Increased share value
   - ☐ d. All of the above
   - ☐ e. None of the above

6. Inflation is when things cost less than they did in the past.
   - ☐ True ☐ False

Key Information From This Section

- ☐ **SAVING AND INVESTING ARE DIFFERENT.** But before you put money into savings or investments, you must save money — set aside income from today for use in the future.

- ☐ **SAVINGS VEHICLES** — savings accounts, checking accounts and certificates of deposit — do no earn much interest, but the principal is safe. Make sure the accounts are at a federally insured financial institution.

- ☐ **INVESTMENT VEHICLES** — stocks, bonds, mutual funds and exchange-traded funds — may earn more interest, but your principal may be at risk.

- ☐ **BEFORE DECIDING WHERE TO PUT THE MONEY YOU SAVE, DEFINE:**
  - your goal for saving or investing;
  - when you need the money; and
  - how much risk you can take.

- ☐ **REMEMBER, PRINCIPAL IS WHAT YOU SAVE OR INVEST, AND RETURNS ARE WHAT YOU EARN ON YOUR PRINCIPAL.** This can be interest, dividends or increased share value.

- ☐ **FINDING MONEY TO SAVE CAN BE HARD.** Try to make it automatic. Use direct deposit or set rules for yourself.

- ☐ **THE TIME VALUE OF MONEY** says money today is worth more than money in the future. This is because of inflation.

- ☐ **COMPOUNDING HELPS YOUR SAVINGS OR INVESTMENTS GROW FASTER.** By reinvesting your returns, they become part of your principal. Then you earn returns on your returns.

ABOUT THE ANNIE E. CASEY FOUNDATION

The Annie E. Casey Foundation is a private philanthropy that creates a brighter future for the nation's children by developing solutions to strengthen families, build paths to economic opportunity and transform struggling communities into safer and healthier places to live, work and grow.

For more information, visit www.aecf.org.

ABOUT THE JIM CASEY YOUTH OPPORTUNITIES INITIATIVE

A unit of the Casey Foundation, the Jim Casey Youth Opportunities Initiative® works to improve outcomes for all young people in the United States ages 14 to 26 who have spent at least one day in foster care after their 14th birthday — a population of nearly 1 million. Working with 17 sites across the country, the Jim Casey Initiative influences policy and practices to improve outcomes for teenagers and young adults who have experienced foster care as they transition to adulthood.