FINANCIAL LITERACY

LESSON 10-26 ▲ SAVINGS AND BANKING

**LEARNING GOALS/OUTCOMES**

* Learn about the importance of saving money and review the basics of banking.
* Define the concept of “paying yourself first.”
* Calculate the value of compound interest over defined periods of time.
* Outline the process of establishing a bank account.
* Identify various methods of accessing cash, including withdrawals, debit cards, and an ATM.

**MATERIALS NEEDED**

* **Student Handouts:**
* Banking Handout
* Journal Page
* **Teacher Handout:**
* Banking Jeopardy Questions
* **Information from a local bank** on how to open an account.

**CLASSROOM ACTIVITIES**

1. **Students race to calculate interest.** Ask each student to take out a piece of paper. They may also take out calculators if they have them handy. Tell students that they have been given $100 and have put it in the bank where it will earn 5% interest each year. Ask them to quickly calculate how much money they will have after one year, five years, and ten years. Ask students to stand up as soon as they finish calculating. Make a note of the first three students to stand up. They have won the interest race! Have students sit down and tell them to hold on to their calculations. They will compare answers and share the formula for calculating interest later in the lesson.
2. **Students define the concept of “paying yourself first.”** During Lesson 10-24, students learned how their contributions to taxes, disability, and Medicare are taken out of their paychecks. Ask them if they can think of anything else they should do before they start spending their income. Ask for several volunteers to share their ideas and write them on the board. If students do not suggest this answer, write it down: “saving.”

Ask students why it might be important to save money. They might answer that they should save so they can pay for big things (such as a vacation, a house, or a college education), they should save so they have money to tide them through bad times (if they lose their job, for instance), and they should save so that they will be able to retire when they are old. Explain to students that because saving is so important, experts recommend that with each paycheck they should set aside money for savings. That is called “paying yourself first.”

Ask students why saving would be considered paying yourself. Tell students that everyone would agree they should take a percentage of their income and put it into savings. Yet most people don’t do that: they spend first, save later. Ask students why people don’t save first.
3. **Students calculate the value of compound interest over defined periods of time.** Remind students of the compound interest race they did at the beginning of the lesson. Call on one of your top three finishers to give their answer for $100 saved at 5% interest for one year. The answer should be $105. Ask the student to explain how they got that answer (100x1.05=105).

Call on another top finisher to give the answer for $100 saved at 5% interest/year for five years. The answer should be $127.63. Ask the student to explain how they got that answer. Make sure students understand that the interest they earn during the next four years year is greater because they are also earning interest on the interest they earned during the earlier years. That is called compound interest, and it is what makes saving money so powerful.

Ask if there is a volunteer to calculate the total they would have after ten years. The answer should be $162.89. Discuss why saving money and earning compound interest is sometimes called “making your money work for you.” Compound interest is the friend of a saver: put in $100, take out $162.89 ten years later.?
4. **Students outline the process of establishing a bank account.** Distribute the *Banking Handout*. Ask for a show of hands: how many students already have a savings or checking account? How many students are using their bank account to save money for something (college, a vacation, a major purchase)? Share information on opening an account in a local bank with students who do not yet have a bank account.

Review the information on the first page of the handout. Once they understand the basics, tell students you’re going to test their banking knowledge by playing a brief game of *Banking Jeopardy*. Organize the class into four or five groups. Tell them there are ten questions: five for Saving Money and five for Borrowing Money. Each section has $10, $20, $30, $40, and $50 questions. Money is added to a team’s score when their team answers correctly. Money is subtracted when they are not. A team cannot go below a score of zero. Tell students you will point at the first person to stand up to indicate they have the answer. Shouting out an answer before being pointed at gets a deduction from their team, even if they are right! Announce a winner after the ten questions are asked.
5. **Students identify various methods of accessing cash, including withdrawals, debit cards, and an ATM.** Ask students how they can get money out of a bank account. Write their answers on the board. Some possibilities include writing a check, using a debit card at a store, using an Automated Teller Machine (ATM), or using a withdrawal slip at a bank. Discuss how each of these methods work. Then ask students if they can take more money out of a bank than they have deposited. The answer is yes, but they will pay a high penalty for doing so.

Tell the story of someone who overspent his debit account by $5 and had to pay a $35 overdraft fee. Discuss why it is important to keep track of how much money you have in the bank to avoid such penalties. Ask students to work individually to complete the checkbook balancing exercise on the second page of the handout. Survey students to determine who would buy the headset and who would not. Ask for their rationale. Lead a class discussion about buying things with little left in the account.
6. **Students reflect on how they can pay themselves first.** Ask students to use a *Journal Page* to answer the following questions:
* How much could I save each month?
* With compound interest, how much would I have in five years?
* What would I do with my savings?

**STUDENT PRODUCTS**

* **Completed *Banking Handout***
* **Completed *Journal Page***on a personal savings plan and how savings could be used.

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LESSON 10-26 STUDENT HANDOUT

 BANKING HANDOUT

People use banks for two reasons: to save money and to borrow money.

**SAVING MONEY**

Banks can help you save money. Plus, banks pay you money (called compound interest) for using your money.

* **Checking/debit accounts.** People store money they need every day in their checking accounts. They spend the money by writing checks or using a debit card.
* **Savings accounts.** Savings accounts are for money you don’t need right away. Many people keep a savings account to store money for emergencies or to save for a big purchase, a vacation, college, or a new home.
* **Longer-term savings.** Do you have extra money you’d like to save? Banks have many other types of accounts (such as certificates of deposit or money market accounts) for money their customers won’t need for six months or a year. These accounts offer higher interest.
* **Retirement savings.** Many banks also offer people a way to save for their old age (through Individual Retirement Accounts or other savings accounts). These accounts may offer a guaranteed interest rate or they may be risky – it’s your choice.
* **Investments.** Some banks also let you invest your money in businesses or in the stock market. These investment accounts are not guaranteed. If the business or stock you invest in fails, you lose money; if it succeeds, you earn money.

**BORROWING MONEY**

Banks also let people borrow money. Banks charge you money (called interest) for using their money.

* **Credit cards.** People use credit cards to buy things and get them right away. You can repay your credit card bill in full each month. If you do, you’ll pay no interest. If you don’t repay all your credit, repaying a little at a time, you’ll have to pay very high interest rates. Credit card companies love people who don’t repay all that they owe on time.
* **Personal loan, car loan, or home equity loan.** Sometimes you need money for something big, such as a new car or a home improvement. To do that, you can get a loan from the bank. With this type of loan, you pay the bank a little each month both toward principal (the money you borrowed) and the interest (the money the bank charges you for the loan). The amount of time that a defined rate of interest is applied is called the term.
* **Mortgage.** Banks also offer bigger loans, called mortgages, for people who are buying a home. You usually pay these mortgages off over 25 years or more. Your home is the “collateral” for a mortgage. Collateral is the guarantee that the bank will be able to recover their loan, if you are unable to pay. That means that if you don’t pay your mortgage, the bank could take your home.

**SPENDING MONEY**

Two ways to get money from your bank account are to write checks or use a debit card. You can spend more money than you have in your account, but you will pay a high penalty if you do so. How do you keep track of how much money you have in your account in order to make informed decisions? It’s a simple matter of addition and subtraction. You just have to stay organized.

Why don’t you try it? Imagine that you have a checking account and use both checks and a debit card. Here are your transactions for the last half of January. Enter them into the “checkbook” below:

* Your beginning balance is $150.
* On January 15th, you write check #1150 to your school for $10 for two tickets to movie night.
* On January 16th, your neighbors pay you $75 for dog-sitting and you deposit it in the bank.
* On January 17th, you use your debit card to pay $80 for a new pair of shoes.
* On January 17th, you use your debit card to pay $10 for your monthly music subscription.
* On January 20th, you receive $20 in allowance and you deposit it in the bank.
* On January 25th, you write check #1151 to your school for $10 for a ticket to the school play.
* On January 28th, you use your debit card to pay $15 for a movie ticket and popcorn.
* On January 29th, you receive $20 in allowance and you deposit it in the bank.
* On January 30th, you withdrew $75 from an ATM to pay your phone bill.
* On January 30th, you use your debit card for $25 for pizza with your friends.
* On February 5th, you are considering purchasing a new $30 headset for your phone.

**SAMPLE CHECKBOOK**Complete the checkbook below. The first few entries have been made for you:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Check or****Receipt #** | **Date** | **Description of Transaction** | **(-)****Amount of****Withdrawal** | **(+)****Amount of****Deposit** | **BALANCE** |
|  |  |  |  |  | $150.00 |
| 1150 | 01/15/16 | School movie night (2 tickets) | $10.00 |  | $140.00 |
|  | 01/16/16 | Payment for dog-sitting |  | $75.00 | $215.00 |
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What is your checkbook balance on February 5th? In this financial situation, would you buy the headset?

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LESSON 10-26 TEACHER HANDOUT

 BANKING JEOPARDY QUESTIONS

**SAVING MONEY**

* $10 What type of bank account offers the higher interest: a checking account, savings account, or long- term savings account?
	+ (Long-term savings)
* $20 You put $500 in a bank. After 10 years, there is over $800 in that account. If you didn’t put any more money in the account, what caused you to get more money?
	+ (Compound interest)
* $30 What type of bank account is the place you keep money you intend to spend right away?
	+ (Checking account OR Debit account)
* $40 Name three ways you can withdraw money from your bank account.
	+ (Any three of: check, debit card, ATM, withdrawal slip at the bank)
* $50 Name the five different ways you can save money with a bank.
	+ (checking account, savings account, longer term savings, retirement savings, investments)

**BORROWING MONEY**

* $10 What is the name of the fee you pay to borrow money from a bank?
	+ (Interest)
* $20 If you completely repay your credit card each month, how much interest do you pay?
	+ (None)
* $30 What word does a bank use to define the money you borrowed?
	+ (Principal)
* $40 When you take out a mortgage, a bank requires collateral. What is collateral?
	+ (A guarantee that they’ll get their money back, if you fail to make payments)
* $50 If you borrow $1,000 at 6% interest/year over three years, how much interest would you pay by the end of the term?
	+ ($180)

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LESSON 10-26 STUDENT HANDOUT

 JOURNAL PAGE

**DATE:**

**Lesson 10-26 | *SAVINGS AND BANKING***

***Q1:*** How much could I save each month?

***Q2:*** With compound interest, how much would I have in five years?

***Q3:*** What would I do with my savings?

***Answers:***