

Saving Starts with Wanting More

LESSON DESCRIPTION AND BACKGROUND

This lesson provides activities designed to help students think clearly about decisions related to saving money. The students set a goal, determine a strategy for saving, and decide how they will save to achieve their goals. They also learn the basics of using savings accounts.

Saving involves trade-offs. When we save, we give up some present consumption in order to provide for future consumption. Doing so is often difficult for adults, and it is certainly difficult for children. But knowing about savings plans, savings goals, and interest-bearing savings accounts can help even children to develop a savings routine. They can be encouraged to put away pennies, nickels, dimes, or more—for a vacation, a big purchase, or a college education.

When adults require children to save, children may perceive saving as a negative experience, focusing on what they forgo today instead of what they gain in the future. However, when children make the decision to save for reasons they choose and in a manner that they choose, they position themselves to experience a key benefit of saving. They may attain a goal they could not have achieved without saving.

Lesson 5 correlates with national standards for English language arts, mathematics, and economics, and with personal finance guidelines, as shown in Tables 1-4 in the introductory section of this publication.

ECONOMIC AND PERSONAL FINANCE CONCEPTS

- Economic want
- Incentive
- Interest
- Long-term goals
- Savings
- Short-term goals

OBJECTIVES

At the end of this lesson, the student will be able to:

- Define **savings, economic want, incentive, short-term goals, long-term goals, and interest.**
- Explain the elements of a **savings** plan.
- Give examples of **short-term** and **long-term goals.**
- Give examples of **incentives.**
- Compare the advantages and disadvantages of various **savings** options.

TIME REQUIRED

Two or three 45-minute periods

MATERIALS

- A transparency of **Visual 5.1, 5.2, and 5.3**
- A copy of **Exercise 5.1, 5.2, 5.3, 5.4, and 5.5** from the *Student Workbook* for each student
- A copy of an actual bank statement
- A piggy bank
- A coffee can or coin purse with coins in it
- A photograph of a local bank

Optional materials:

- A transparency of **Visual 5.4** and **5.5**
- A copy of **Exercise 5.6** and **5.7** for each student

ADDITIONAL RESOURCES

To download visuals, find related lessons, correlations to state standards, interactives, and more visit <http://fffl.councilforeconed.org/3-5/lesson5>

PROCEDURE

1. Display a coffee can or coin purse with coins, a piggy bank, and a picture of a local bank. Ask: What do these three things have in common? **(All are places to keep savings.)** Explain that in this lesson the students will learn about savings.
2. Explain that many people earn income when they work. Ask:
 - a. How many of you earn income by doing work at home or working for someone else? **(Answers will vary.)**
 - b. What do you do with the money you earn? **(Answers will vary. Some students may save some of the money they earn.)**
3. Explain that many people spend some of their income and save some of it. Money saved is commonly called “savings”—that is, income that is set aside, not spent to buy goods and services now. Point to the coffee can and explain that some people might keep their savings in a can, a sock, or a drawer; some children keep their savings in a piggy bank. Show the students a picture of a local bank, if possible, and explain that many people keep their savings in an account in a bank. Discuss the following questions:
 - a. Where can students keep their savings? **(In piggy banks, purses, small safes at home, savings accounts in banks, etc.)**
 - b. Do you decide whether or not you will save money, or do your parents make that decision for you? **(Answers will vary.)**

c. Why do you save? **(To purchase something in the future.)**

4. Introduce the concept of “goals.” Ask: What is a goal? **(Answers will vary. Some students may say that it is a point scored in soccer or hockey.)** Explain that the kind of goal we are interested in is something a person plans to achieve in the future. For example, a student may have a goal of learning to play a musical instrument or learning to shoot three-point shots accurately in basketball.
5. Ask the students to provide examples of goods or services for which they have saved. Explain that when people are saving to buy something in the future, they have a savings goal.
6. Explain that people save to reach “short-term” and “long-term goals.” Short-term savings goals are established for things people plan to buy soon (in less than a year). Long-term savings goals are established for things people plan to buy in the more distant future (more than one year away). For example, a person might save for a vacation that he or she plans to take within a year. This is a short-term goal. A person might also save for his or her college education. This is a long-term goal.
7. Tell the students that in this lesson they will think about things they want in the future; they also will think about their savings goals. With appropriate strategies and practice, they will be able to improve their approach to decisions about saving for their future.
8. Point out that people use their income to buy goods and services. Most people can obtain some of the goods and services they want in the present. Other goods and services, however, may be unaffordable in the present and require, therefore, a period of saving. For example, many people save money for several years before they are able to buy a home.
9. Give each student a copy of **Exercise 5.1** from the *Student Workbook*. Review the directions and have the students work on their lists of goods and services in Part 1 of the exercise.

After the students have completed their lists, ask: Do you have the ability to purchase all the good and services you have listed? **(Not likely.)**

10. Remind the students that even if people save money, they most likely can't have everything they want. Because people usually want more than they can afford to buy, they must make choices. They must decide what to buy now, what to save for in the future, and, perhaps, what to take off the wish list entirely. Have the students read the directions for Part 2 of **Exercise 5.1** and complete the exercise.

11. Tell the students to look at the two lists and circle one good or service from either list that (a) they really want but (b) they could not afford now and could obtain later only by saving money for a future purchase. (You may want to suggest here that the students should choose an item that they would like to have in less than one year [that is, a short-term saving goal]. This time frame may make the goal seem realistic.)

12. Give each student a copy of **Exercise 5.2** from the *Student Workbook* and review the instructions with the class. Allow time for completion of the work.

13. Explain that, at this point, the students have taken a first step toward developing a successful savings plan. They have set a goal! Discuss the following questions:

- Why will setting a goal make it easier for you to save? **(Answers will vary; some students may say that setting a goal will motivate them to save.)**
- How will your goal affect your everyday spending decisions? Will you have to change your day-to-day spending, because of your goal? **(Answers will vary; some students may say that they will have to cut back on current spending in order to achieve their savings goal.)**

14. Introduce the concept of "incentives." An incentive is a reward or penalty that influences how people behave. Use the following ques-

tions to highlight the role incentives play in students' lives in school and at home:

- Can you name some incentives at school that influence whether students behave in halls, arrive on time, return library books, or complete homework? **(The class may earn points toward a prize when everyone behaves. Individuals may receive tardy marks on their report cards or have to stay after school if they are late. Individuals may lose points or receive a zero if their homework isn't completed. Points, detentions, good and bad marks—all may influence how students behave.)**
- What are some incentives at home that influence whether you do your homework, do chores, earn good grades, or get along with your brothers and sisters? **(You may be grounded if you don't do your homework. You may receive an allowance if you do your chores. You may receive money or a prize if you earn good grades. You may be grounded or not permitted to talk with friends on the phone if you fight with your brothers and sisters, etc.)**

15. Explain that incentives also play a role in decisions people make about saving. Having a savings goal clearly in mind creates an incentive to save. For many people, achieving a goal provides satisfaction, and anticipation of such satisfaction can be an incentive. Another sort of incentive comes into play for people who save money in bank accounts. When people deposit money in bank accounts, the banks pay "interest." Interest is money depositors earn for allowing a bank to use their money. The prospect of earning interest encourages many people to save. Their money "grows" while it is on deposit in a savings account.

16. Display **Visual 5.1**. This visual shows an example of a savings account statement from a bank. The statement is a record of the balance in a savings account at the beginning of a month, the deposits the saver has made during the month, the withdrawals the saver has made

during the month, interest earned on the balance, and the new balance at the end of the month. (Note: If you have a copy of a real bank statement, you can show it to the students or pass it around the classroom for them to view.)

17. To clarify how savings accounts work, walk the students through an examination of **Visual 5.1**, using the following questions:

- What was the beginning balance on October 31, 2009? (**\$560.25**)
- How much did Ms. Savealot deposit during November? (**\$125**)
- How much was withdrawn during November? (**\$30**)
- How much interest was earned this month? (**\$3.20**)
- What is the ending balance in the account on November 30, 2009? (**\$658.45**)

18. Refer the students again to **Exercise 5.2**. Remind them that in this exercise they identified a savings goal and set a date for achieving the goal; they also estimated how much it will cost to achieve this goal. Tell the students that they are now ready to take the next step. They will determine how much they must save each week or month in order to achieve their goals.

19. Display **Visual 5.2**. Also give each student a copy of **Exercise 5.3** from the *Student Workbook*. In Part 1 of **Exercise 5.3**, the students follow the steps required to calculate Mark's monthly savings requirements, given his goal, while the teacher works through the same steps on the visual. (**In Mark's example, $\$6 \times 6 \text{ months} = \36 [or add $\$6 + \$6 + \$6 + \$6 + \$6 = \36].**) After determining Mark's savings requirement, have the students move on to Part 2 of **Exercise 5.3**. Explain that if they complete Part 2 of the worksheet correctly, the amount they must save in each time period multiplied by the number of time periods will equal the amount they must save to reach their savings goal.

20. When the students have finished their calculations for **Exercise 5.3**, ask the following questions:

- Is your savings target realistic? Can you really set that amount of money aside each week or month? (**Answers will vary.**)
- What can you do if the targeted amount is too much or too little? (**Change the date you have set for reaching the goal, or change the amount to be saved, or plan to save more often.**)
- What will you give up by saving the targeted amount each week or month? (**The next most-valued use you could have made of the money saved.**)

21. Pair the students up into teams of two. In these teams, each partner should explain his or her savings plan to the other. After these explanations, congratulate the students for having taken a second step toward establishing a savings plan: They have determined how much they will need to save, and for how long a time, to reach their goals.

22. Explain the next step. The students must now decide where they will keep their savings. Remind them that they have already identified some alternatives—a piggy bank, a bank savings account, a coffee can, etc. Note that there may be other alternatives, such as U.S. Savings Bonds, that are more suitable for long-term goals.

23. Given the alternatives, how should the students choose where they will keep their savings? Introduce the concept of "criteria." Criteria are important factors people consider when making a decision. Ask: What might some criteria be for deciding where to keep the money you save? Discuss the students' responses briefly. Drawing upon the responses and elaborating as necessary, list the following criteria on the board:

- Will my money be safe?
- Will my savings earn interest?

- Will I be able to get my money whenever I want it?

24. Discuss the criteria. Ask: Why are these criteria important? **(Answers probably will emphasize safety and access to the money. Students at this age probably have not thought much about the importance of earning interest.)**

25. Give each student a copy of **Exercise 5.4** from the *Student Workbook* and display **Visual 5.3**. Explain that this grid is a tool people can use to organize their thoughts when they are making a decision. Tell the students that they will use the grid to decide where they should save their money. Explain this exercise as follows:

- Focus first on the left column of the grid, labeled "Savings Location Alternatives." In the four boxes in this column, the students should enter four savings options: piggy bank, savings held by parents, bank savings account, U.S. Savings Bond. The teacher should also enter these options on **Visual 5.3**.
- Look next at the middle three boxes across the top of the grid, under the heading "Evaluation Criteria." In these boxes the students should list criteria to be used in evaluating savings location alternatives. (The three criteria should be "Will my money be safe?," "Will my savings earn interest?," and "Will I be able to get my money whenever I want it?") While the students enter the criteria into their grids, the teacher should enter the criteria into the three corresponding boxes at the top of the visual.

26. Give each student a copy of **Exercise 5.5** from the *Student Workbook*. Explain that the exercise describes four savings options—one each for Brett (piggy bank), Talia (parents hold savings), Kate (bank savings account), and Kendra (Savings Bond). Ask the students to read these descriptions. Then work through the options with the class, evaluating each option against the criteria shown on **Visual 5.3** and

Exercise 5.4. (Older students may be able to work at this task independently.) Begin with the example of Brett and the piggy bank:

- Will the money be safe in the piggy bank? **(The class will probably answer "no.")** Write a minus sign [-] in the "Will my money be safe?" box in the piggy bank row on **Visual 5.3**, and have the students enter a minus sign [-] in the correct box on their own grids.
 - Will I be able to get my money whenever I want it? **(Yes, assuming the piggy bank is safe.)** Write a plus sign [+] in the "Will I be able to get my money whenever I want it?" box in the piggy bank row on **Visual 5.3**, and have the students locate and enter a plus sign [+] in the correct box on their own grids.
 - Will my money earn interest? **(No.)** Write a minus sign [-] in the "Will my money earn interest?" column of the piggy bank box on **Visual 5.3**, and have the students place a minus sign [-] in the correct box on their grids.
27. Help the students complete the evaluation for the other alternatives, entering the pluses and minuses, according to the criteria, for each of the remaining savings options. Tell the students to add all the pluses across in a row to determine the net value for each alternative. Subtract the minuses from the summed-up pluses in determining the net value for each option (taking this approach should not change the relative ranking of the options under consideration). Enter each calculated amount in the appropriate box for the "Net Value" column on the far right side of the grid on **Visual 5.3**, and have the students do the same on their grids. The alternative with the highest net value is the best savings option for the students.
28. Underscore the conclusion this evaluation suggests. Ask: What did we select as the best option for saving? **(Probably the bank savings account.)** Identify local banks in the community where the students could open a savings account if they wished to save in a bank. If possible, show the current interest rates for accounts held at local banks.

29. Optional Activity: Give each student a copy of **Exercise 5.6** and **5.7** from the *Student Workbook*, and display **Visual 5.4**. Explain that the students will learn how to keep track of money deposited in a bank savings account so that they'll be ready to keep track of their money when they open their own savings accounts. Discuss the following:

- The table in **Exercise 5.6** represents a bank savings account register. In the first column, bank customers can note whether they are making a deposit or a withdrawal. When people make a deposit, they add money to the account. When they make a withdrawal, they take (subtract) money from the account to spend or use in some other way.
- When the bank adds interest to the account, the saver enters the interest in the register under the deposit category.

30. Explain that this savings account belongs to Ms. Mae Savalot. When Ms. Savalot checked her last bank statement, the balance was \$562.50. That amount is listed in the first row of the "Balance" column on the sheet.

31. Turn to **Exercise 5.7**. Have one of the students read the first statement on **Exercise 5.7** to the entire class; then ask the following questions:

- What is interest? (**Money the bank pays a customer for saving.**)
- When the bank pays interest, is the interest added to Ms. Savalot's account or *taken away from her account*? (**It is added to her account.**)

32. Write "interest earned" in the second row of the first column on **Visual 5.4**. Explain that because the interest is added to the account by the bank, it is like a deposit. Enter the interest amount (\$2.25) in the deposit column. Have the students enter the same amount on their **Exercise 5.6** Savings Account Registers. Add the interest to the balance and record the answer (the new balance) in the second row of the "Balance" column (\$564.75) on **Visual 5.4**. Have the students record the new balance on their

Exercise 5.6 Savings Account Registers.

33. Ask a student to read the second statement on **Exercise 5.7** to the class. According to this statement, is Ms. Savalot adding savings or subtracting savings from her account?

(Subtracting.)

34. Write "Withdrawal" in the third row of the first column on **Visual 5.4**, and have the students do the same on their **Exercise 5.6** Savings Account Registers. Then enter \$26.00 in the third row of the withdrawal column, and have the students do the same.

35. Remind the students that Ms. Savalot is taking money from her account, so the amount she is withdrawing must be subtracted from the balance. Have the students do the calculation ($\$564.75 - \26.00); call on a volunteer to report the new balance (**\$538.75**). Tell the students to record that amount in the third row of the "Balance" column on their **Exercise 5.6** Savings Account Registers, and record the amount in the corresponding place on **Visual 5.4**.

36. Call for a volunteer to read the third statement on **Exercise 5.7** to the class. Ask:

- According to this statement, is Ms. Savalot adding savings to her account or taking savings from her account? (**Adding.**)
- Where should we enter this information on the register? (**Write Deposit in the fourth row of the first column. Enter the deposit amount in the fourth row of the Deposit column.**)
- Should we add the deposit to the balance in the account or subtract it? (**Add.**)
- What is the new balance? (**\$563.75**)

37. Pair the students up into teams of two. Have them read the remaining statements on **Exercise 5.7** and complete the necessary entries on **Exercise 5.6**. When they have finished this task, display **Visual 5.5** and tell the students to check their work.

CLOSURE

1. Use the following questions to review the lesson:

- What is savings? (**Income not spent to buy goods and services now.**)
- What is a goal? (**Something a person plans to achieve some time in the future.**)
- Why do people save? (**To buy something, or use their money otherwise, in the future.**)
- If a person is saving to buy something in two months, does this person have a short-term or a long-term savings goal? (**A short-term savings goal.**)
- Give an example of a short-term savings goal you have now, or have had in the past. (**Answers will vary—to save money for an outing at an amusement park, to buy a video game, to buy new shoes, etc.**)
- If a person is saving to buy something in two years, does this person have a short-term or a long term savings goal? (**A long-term savings goal.**)
- Give an example of a long-term savings goal you have now, or have had in the past. (**Answers will vary—to save money for an expensive bike, to pay for college, to purchase a new computer, etc.**)
- What is an incentive? (**A reward or penalty that influences how people behave.**)
- Name some incentives that may encourage people to save money. (**Achieving a savings goal, earning interest.**)
- What is interest? (**The money people earn for allowing a bank or someone else to use their money.**)

2. Remind the students that in this lesson each of them developed a savings plan. First, they decided on a goal by choosing a good or service they would like to buy in the future. Second, they determined how long they would have to save, how often they would have to save, and how much they would have to save each week or month to reach their goals. Finally, they

evaluated different places to keep the money they would save. Emphasize the point that planning of this sort this is something that people must do frequently. The students will have many occasions in the future to establish and implement savings plans.

3. Tell the students that children may have savings accounts. Usually, for children under 18, an adult must accompany a child and help him or her in opening a savings account, and an adult is usually required to sign his or her name on a child's savings account.

ASSESSMENT

At the end of the **Saving** Theme, select appropriate assessment questions for this lesson.

EXTENSION

- Encourage the students to read one or more of the following books about savings and money: *From Beads to Bank Notes: The Story of Money*, by Neale S. Godfrey. *A New Coat for Anna*, by Harriet Ziefert. *Round and Round the Money Goes*, by Melva and Gilda Berger.
- Have the students use information from online sources or newspapers to determine the interest rates currently offered by local banks and credit unions. Have them make a chart of the rates, ranking them from lowest to highest.
- Read *Less Than Zero*, by Stuart Murphy, to learn about Perry's savings goal, how he handles borrowing, and his opportunity cost along the way. Visit the St. Louis Federal Reserve Bank website at www.stlouisfed.org under "Education Resources" for a complete lesson plan to use with this book. Other lesson plans for using children's literature applicable to economics and personal finance are also available on this website.

- Help the students find the location of banks or other savings institutions like credit unions in their community. Provide them with a community map; have them mark the locations on the map. Then have them determine the route they could follow to get to the bank—the route that would take the least amount of time or “save” the most time. The students should include a compass rose on the map.