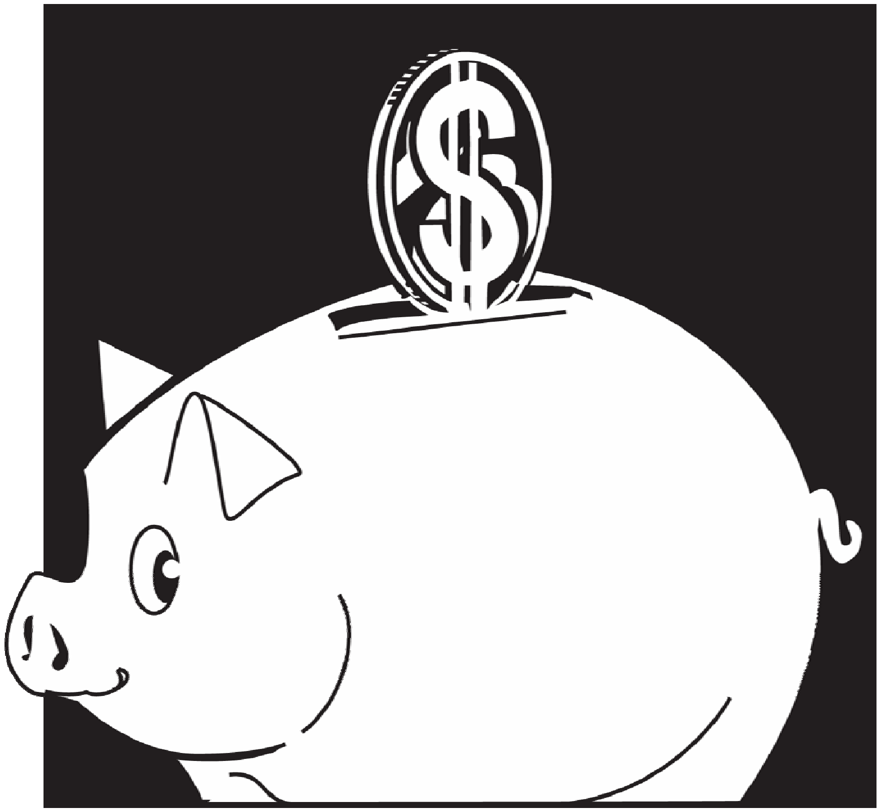
# Pay Yourself First



## Instructor Guide

Building: Knowledge, Security, Confidence

**FDIC Financial Education Curriculum**

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# MODULE OVERVIEW

## Purpose

The Pay Yourself First module helps students identify ways they can save money and introduces savings options that they can use to save toward their goals.

## Objectives

At the end of the module, students will be able to:

- Explain why it is important to save.
- Determine goals toward which they want to save.
- Identify savings options.
- Determine which savings options will help them reach their savings goals.

## Presentation Time

The total presentation time is 60 to 90 minutes, depending on how long it takes students to complete the exercises.

## Materials and Equipment Needed to Present This Module

**Important Note:** The materials and equipment needed to present all of the Money Smart modules are listed in the *Guide to Presenting the Money Smart Program*. Review the Guide thoroughly before presenting this module.

## Handouts

Investment Products

# LESSON PLAN

| Instructor Notes | Presentation |
|---|---|

## MODULE OVERVIEW

### Welcome

*1: Pay Yourself First*

*Welcome students.*

Welcome to Pay Yourself First! Saving money is an important part of building your financial future.

This module will give you some tips to help you get started. It will also show you how your money can grow when you save and give you some important information about saving and investment products.

### Introduction

*2: Introduction*

*Introduce yourself and share a little of your background and experience.*

### Student introductions

*3: Student Introductions*

Before we get started, I would like to know a little bit about you.

*Ask students to introduce themselves and state their expectations, questions, and/or concerns about what will be covered during the training.*

*If there is anything that will not be covered in the course, tell students where the information can be obtained (e.g., another module, a Website).*

*Record their course-related expectations, questions, and concerns on chart paper and tape to the walls in the classroom.*

### Purpose

*4: Purpose.*

*Describe the purpose of the module.*

The Pay Yourself First module will help you identify ways you can save money.

It will also introduce savings options that you can use to save toward your goals.

| Instructor Notes | Presentation |
| --- | --- |

**MODULE OVERVIEW** (Continued)

### Objectives

*5: Objectives.*

*Describe the course objectives.*

By the end of this course, 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 option will best help you reach your savings goals.

### Agenda and Ground Rules

*6: Agenda and Ground Rules*

*Describe the module agenda and ground rules.*

This course will take about 90 minutes to present, depending on how long it takes us to get through the exercises and activities.

There will be one 10-minute break about halfway through the training.

I will be using a variety of training methods. I will be presenting material to you in the form of lectures.

There will also be classroom and small group discussions and exercises that give you a chance to practice what you have learned.

If you have experience or knowledge in some aspect of the training material, please share your ideas with the class.

One of the best ways to learn is from each other. You might be aware of some method that has worked well for you or some pitfall to avoid. Your contribution to the class will make the learning experience that much better.

| Instructor Notes | Presentation |
| --- | --- |

**MODULE OVERVIEW** (Continued)

**Student Materials**

*Refer students to the Participant Guide.*

*Review its contents and organization.*

Each of you has a copy of the Pay Yourself First Participant Guide. It contains:

- Materials and instructions you will need to complete the exercises.
- Checklists and tip sheets related to the module content.
- Space for you to take notes.
- A glossary of the terms used in this module.
- Resources for you to investigate after the class.

You will also receive a copy of the slides I will be using to present this module.

We will be using the Participant Guide throughout the training. You will be able to take it home and use it as a reference.

*Ask students …*

Do you have any questions about the module overview?

| Instructor Notes | Presentation |
|---|---|
| | **WHAT DO YOU KNOW?** |
| | **Purpose** |
| *Refer students to the What Do You Know? form on page 15 of the Participant Guide. Explain its purpose.* | The *What Do You Know?* form lets you measure how much you have learned from this module. It also tells me what you liked about it and what needs to be improved. |
| | *Read the instructions for the "Before-the-Training" column only and walk students through each statement.*<br>*Provide enough time for students to complete this portion of the form.*<br>*Tell students they will return to this form at the end of the training to complete the remaining sections.* |
| *Transition to the next topic.* | Now let's talk about paying yourself first. |

| Instructor Notes | Presentation |
|---|---|
| | **OVERVIEW OF SAVING** |
| | **The Meaning of "Pay Yourself First"** |
| *Begin the topic by asking students …* | What do you think it means to "pay yourself first"?<br>*Acknowledge students' responses.* |
| *7: Pay Yourself First* | Paying yourself first means that when you get a paycheck, you put some of that money in a savings account before you pay your other bills. |
| *Ask students …* | Why would you want to pay yourself first before paying your other bills?<br>*Write students' responses on chart paper.* |
| | **Benefits of Paying Yourself First** |
| *8: Benefits of Paying Yourself First* | There are many reasons to pay yourself first. You can<br>• Learn to manage money better.<br>• Save money toward goals you have identified.<br>• Improve your standard of living.<br>• Have money for emergencies. |
| *Ask students …* | What are some of the things people save money for?<br>*Write students' responses on chart paper.* |

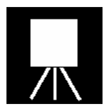
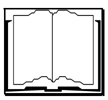
| Instructor Notes | Presentation |
|---|---|
| | **OVERVIEW OF SAVING** (Continued) |
| | Some major expenses people save for include: |
| *Include these items if students do not mention them.* | • Unexpected events such as loss of job, car repair, or hospitalization.<br>• Down payment for a house, car, or other large purchase.<br>• Postsecondary education.<br>• Vacation.<br>• Retirement. |
| *Transition to next activity …* | Now that we have looked at some reasons to save, let's apply some of those reasons to our own personal circumstances. |
| | **Pay Yourself First Worksheet** |
| *Refer Students to the Pay Yourself First worksheet on page 1 of their Participant Guide.* | Let's look at the Pay Yourself First worksheet in your Participant Guide.<br>Take a few minutes to think about and write down your goals for the future for which you need to save money. Fill in the top half of the worksheet only. |
| | *Give students 2 minutes to write down their goals. You can write down your goals as well. Use Instructor Aid #1 on the next page to guide you.*<br>*Ask for volunteers to share their goals with the class.*<br>*Share some of your goals with the class.* |
| *When students have finished recording their goals, transition to the next topic.* | Now let's talk about some ways to save for these goals. |

Instructor Aid #1

# Pay Yourself First Worksheet

**My savings goals:**

**I can use these tips to save toward my goals:**

| Instructor Notes | Presentation |
|---|---|
| | **SAVING TIPS** |
| *Introduce the topic.* | Many people spend all the money they make, but saving is important.<br>Some people believe they do not have enough money to start saving. |
| <br>*Ask students …* | What are some things you can do to start saving money?<br><br><br>*Write students responses on chart paper.* |
| <br>*Refer Students to Saving Tips on page 2 of their Participant Guide.* | Those are great ideas. Let's look at some more.<br>You can follow along in your Participant Guide as I talk about the first few tips.<br>*Review the tips with students, using Instructor Aid #2 on the next page to guide you.*<br>*Emphasize that tips 5–7 represent more ways to pay yourself first.* |

**Instructor Aid #2**

# SAVING TIPS

1. Consider needs versus wants. Think about the items you purchase on a regular basis. These add up. Where can you save?
   - Do you eat out at restaurants a lot?
   - Can you cut back on daily expenses, such as coffee, candy, soda, or cigarettes?
   - Do you have services you do not really need, such as cable television or a cell phone?
2. Direct deposit or automatic transfer to savings.
   - When you get paid, put a portion in savings through direct deposit or automatic transfer.
   - If you have a checking account, you may sign up to have money moved into your savings account every month. What you do not see you do not miss!
   - You may purchase U.S. Savings Bonds through payroll deduction.
3. Pay your bills on time. This saves the added expense of:
   - Late fees.
   - Extra finance charges.
   - Disconnection fees for utilities such as phone or electricity.
   - Fees to reestablish connection if your service is disconnected.
   - The cost of eviction.
   - Repossession.
   - Bill collectors.
4. If you use check-cashing stores regularly, you might pay $3 to $5 for each check you cash. This can easily add up to several hundred dollars in fees every year. Consider opening a checking account at a bank or credit union.

   If you would like more information about checking accounts, you can take the Check It Out module.
5. If you get a raise or bonus from your employer, save that extra money.
6. If you have paid off a loan, keep making the monthly payments to yourself. You can save or invest the money for your future goals.

## **SAVING TIPS** (Continued)

7. If you receive cash as a gift, save at least part of it.
8. Avoid debt that does not help build long-term financial security. For example, avoid borrowing money for things that do not provide financial benefits or that do not last as long as the loan. Examples include: a vacation, clothing, and dinners out in restaurants. Examples of debt that helps build long-term financial security include:
   - Paying for college education (for you or your child).
   - Buying or remodeling a house.
   - Buying a car to get to work.
9. Save your change at the end of the day. Take that change and deposit it in the bank every week or month.
10. When you get a tax refund, save as much of it as possible.
11. If your work offers a retirement plan, such as a 401(k) or 403(b) plan that deducts money from your paycheck, join it! Most employers will match up to $.50 on each dollar you contribute. The matched amount is free money!
12. If you decide to make investments, do your homework. Know what you are investing in. Get professional advice if you need it. You should have enough money in savings to pay for 2 to 6 months of expenses in case of emergency. Make sure you have an emergency savings account before considering investing in nondeposit products.
13. If you own stocks, reinvest the dividends to purchase more stocks. Some companies offer an easy way to do this called a Dividend Reinvestment Program (DRIP). This process increases your investment faster, similar to compounding.
14. If you are interested in learning about investing, consider joining an investment club. Investment clubs are groups of people who work together to understand the process and value of investing even small amounts of money (as little as $5 to $10).

| Instructor Notes | Presentation |
|---|---|
| | **SAVING TIPS** (Continued) |
| *Ask students …* | Do you have any questions about these saving tips and strategies? |
| *Transition to the next topic.* | You now have some great ideas of how to save, many of which you can probably use right now. |
| *Refer students to the Pay Yourself worksheet on page 1 of their Participant Guide.* | Let's go back to the Pay Yourself First worksheet and fill in the second half.<br>Write down some ways to save for the goals you have already identified, using the tips and strategies we have just discussed. |
| | *Give students 2 minutes to write down ways they can save to achieve their goals.*<br>*You can write down ways you can save to achieve your goals as well. Use Instructor Aids #1and 2 to guide you.*<br>*Ask for volunteers to share how they plan to save for their ideas.*<br>*Share some of your ideas with the class.* |
| *Transition to the next topic.* | We have talked about why it is important to save and identified some tips for saving money.<br>Now let's look at the real benefit of saving money – how your money can grow. |

| Instructor Notes | Presentation |
|---|---|
| | **HOW YOUR MONEY CAN GROW** |
| *Introduce the topic.* | Making regular payments to yourself, even in small amounts, can add up over time.<br>The amount your money grows depends on the interest earned and the amount of time you leave it in the account. |
| | **Interest** |
| *9: Interest*<br>*Explain what interest is.* | Interest is an amount of money banks or other financial institutions pay you for keeping money on deposit with them.<br>Interest is expressed as a percentage and is calculated based on the amount of money in your account. |
| *Give an example of how money does not grow.* | Now let me give you an example of your money not growing.<br>If you have $1,000 stashed away under your mattress for a year, it will still be $1,000 at the end of the year, providing that it has not been lost or stolen. Your mattress is not paying you interest for keeping your money under it. |
| | **Compound Interest** |
| *Introduce the topic of compound interest.* | Now let's talk about the power of compounding.<br>Compounding is how your money can grow when you keep it in a financial institution that pays interest. |
| *10: Compound Interest* | When the bank compounds the interest in your account, you earn money on the previously paid interest, in addition to the money in your account.<br>But not all savings accounts are created equal. This is because interest can be compounded daily, monthly, or annually. |

| Instructor Notes | Presentation |
|---|---|

**HOW YOUR MONEY CAN GROW** (Continued)

*Annual vs. Daily Compounding chart*

Let's look at several charts that will help you understand how compound interest works.

> *Refer students to the Annual vs. Daily Compounding chart on page 4 of their Participant Guide.*
>
> *Review it with them, using Instructor aid #3 to guide you.*

The first chart we are going to take a look at is the Annual vs. Daily Compounding chart.

- $1,000 compounded annually at 5 percent earns you $50 in interest at the end of the year. Interest has been calculated once, at the end of the year. This is more than if you had kept it under your mattress.

*Compounding Interest Over Time chart*

> *Refer students to the Compounding Interest Over Time chart on page 4 of their Participant Guide.*
>
> *Describe how interest adds up based on how often it is compounded and how long it stays in the account.*

- If you deposit $1,000 in an account that has daily compounding, at the end of the day you would have $1,000.14.
- The next day, the interest would be calculated based on the amount of your original deposit PLUS the previously earned interest – $1,000.14, rather than just $1,000.
- By the end of the year, you will have $1,051.27. The extra $1.27 does not seem like much, but the next chart shows how it can add up over time.

**Instructor Aid #3**

## ANNUAL VS. DAILY COMPOUNDING

The more frequently interest compounds, the faster it grows.

| Annual Compounding | Daily Compounding |
|---|---|
| Start with $1,000<br>At 5 percent, compounded annually.<br><br>At the end of the first day, still $1,000<br><br>At the end of the year, $1,050.00 –<br>$50, or 5 percent of $1,000 added to the original deposit | Start with $1,000<br>At 5 percent, compounded daily.<br><br>At the end of the first day, $1,000.14<br>On the second day, add the interest earned, 14 cents, and compound the total amount – $1,000.14 …<br>At the end of the year, $1,051.27, compounding each day's interest rate added to $1,000 |
| **Total: $1,050.00** | **Total: $1,051.27** |

## COMPOUNDING INTEREST OVER TIME

| | 5 years | 10 years |
|---|---|---|
| Mattress compounding – NO interest | $1,000 | $1,000 |
| Annual compounding at 5 percent | $1,276 | $1,629 |
| Monthly compounding at 5 percent | $1,283 | $1,647 |
| Daily compounding at 5 percent | $1,284 | $1,649 |

14 cents adds up over time when compounded daily!

| Instructor Notes | Presentation |
|---|---|
| | **HOW YOUR MONEY CAN GROW** (Continued) |
| *Saving $1 and $5 a Day Charts* | However, you do not need $1,000 to see the power of compounding.<br>The next chart shows that even small amounts of savings add up.<br>*Refer Students to the Saving $1 and $5 a Day charts on page 5 of their Participant Guide.*<br>*Explain how much $1 grows the longer it is saved.*<br>*Explain how much $5 grows the longer it is saved.*<br>*Use Instructor Aid #4 to guide you.* |
| *11: Saving $1 a Day* | Look at what happens when you save just $1 a day at 5 percent interest that compounds daily.  At the end of 1 year, you made an extra $9 in compound interest. The real power of compounding shows at the end of 30 years. You made an extra $14,465! |
| *12: Saving $5 a Day* | The next chart shows what happens to your money when you save just $5 a day at 5 percent interest that compounds daily.<br>The chart shows a difference of only $46 at the end of the first year. However, compounding daily after 30 years will give you an extra $72,327!<br>Check with your bank to get exact interest rates and how they are compounded.<br>We will talk about other savings options later in the module. |
| *Ask students …* | Do you have any questions about compound interest? |

# SAVING $1 AND $5 A DAY

**Saving $1 a day**

| | No interest | 5 Percent 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 Percent 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 |

| Instructor Notes | Presentation |
|---|---|

**HOW YOUR MONEY CAN GROW** (Continued)

**Annual Percentage Yield (APY)**

Another important concept you need to know about is annual percentage yield (APY).

*13: Annual percentage yield (APY)*

*Explain what APY is.*

APY reflects the amount of interest you will earn on a yearly basis. It is expressed as a percentage.

- The APY includes the effect of compounding. The more often your money compounds, the higher the APY and the more interest you will receive.
- When comparing different accounts, you should compare the APYs of the savings products, not the interest rates.

Please note that the interest you earn is considered income, and you may have to pay taxes on it.

*Tell students about Truth in Savings disclosures.*

Make sure you ask the bank's customer service representative for the Truth in Savings disclosures. These disclosures list the APY and other important information that you should know about the accounts you are interested in.

*Transition to the next topic.*

There is another important concept that you should know about when it comes to how your money can grow. It is called the Rule of 72.

**Rule of 72**

*14: Rule of 72*

*Explain what the Rule of 72 is.*

The Rule of 72 is a formula that lets you know how long it will take for your savings to double in value. This calculation assumes that the interest rate remains the same over time.

| Instructor Notes | Presentation |
|---|---|
| | **HOW YOUR MONEY CAN GROW** (Continued) |
| *Write the calculation on chart paper.* | Here is how you calculate it:<br>• Divide 72 by the current interest rate to determine the number of years that it will take to double your initial savings amount.<br>• For example, if you invest $50 in a savings account at a 4 percent interest rate, it will take 18 years for your initial savings of $50 to double.<br>• 72 divided by 4 percent or .04 = 18 |
| | You can also find out how much compound interest you need to have when you know how many years you want your initial savings amount to double. |
| *Write the calculation on chart paper.* | Here is an example of how this works.<br>• If you put $500 in an account that you want to double in 12 years, you will need an interest rate of 6 percent.<br>• 72 divided by 12 = 6 percent. |
| | Let's see if you can figure out the interest rate of a savings account. |
| *Ask students …* | If you want your savings account to double in value in 20 years, what interest rate would the account need to have?<br>**Answer:** 72 divided by 20 = **3.6 percent**. |
| *Ask students …* | Do you have any questions about the Rule of 72? |
| *Tell students about terms in the Glossary, beginning on page 18 of their Participant Guide.* | There are many other terms related to savings and interest in your Glossary. When you get home, take some time to review them. |
| *Transition to the next topic.* | Now that you know about the benefits of saving and how money can grow, let's look at the different types of savings and investment options that you can choose from. |

| Instructor Notes | Presentation |
| --- | --- |

## SAVINGS OPTIONS

*15: Two Ways to Save*

There are two basic ways to save money. You can open a savings account or you can invest your money.

An important difference between the two is that savings accounts are federally insured and investments are not.

### Open a Savings Account

Let's take a look at savings accounts first.

*16: Savings Accounts*

*Describe the features of savings accounts.*

We have already seen that, with a savings account, you make money by earning interest. The bank pays you interest for the opportunity to use your money.

A savings account also ensures that your money is safe and that you have easy access to it.

The Federal Deposit Insurance Corporation (FDIC) insures your money in insured financial institutions up to the maximum allowed by law. The National Credit Union Administration or NCUA insures your money at insured credit unions.

This means that if your financial institution goes out of business and cannot pay your money, the FDIC or NCUA will make sure that you get it.

The FDIC has an online tool called Electronic Deposit Insurance Estimator (EDIE). It lets you calculate the insurance coverage of your accounts at each FDIC-insured institution.

*Write the Web address on chart paper.*

You can find EDIE online at www.fdic.gov.

*Transition to the next topic.*

Let's look at four savings products available at most banks.

| Instructor Notes | Presentation |
|---|---|
| | **SAVINGS OPTIONS** (Continued) |
| *17: Four Savings Products* | **Four Savings Products**<br>You are probably already familiar with some of these. What I would like to do is have you try to match the name of the account with its description.<br>Do not worry if you do not know the answer. I will give you the right answers. |
| *Four Savings Products* | *Refer students to Four Savings Products on page 6 of their Participant Guide.*<br>*Review the instructions with them, using Instructor Aid #5 to guide you.*<br>*Give students 5 minutes to complete the activity.*<br>*Provide the correct answers and additional information.*<br>*Answer questions.* |
| *When you have finished the activity, remind students of the importance of checking their bank statements.* | With these savings products, you will likely receive a statement from your financial institution. Remember to always check your bank records and statements to be sure they are accurate. |
| *Ask students …* | Do you have any questions about these savings products? |
| *Transition to the next topic.* | You should also know about some special accounts that financial institutions offer. |

Instructor Aid #5

# FOUR SAVINGS PRODUCTS

**Instructions**

Refer to the list of savings products on the slide.  Fill in the blank with the name of the savings product that best describes it.

**Savings Products**

**Club Account**

This is an account you join to save money for a special reason, such as a holiday, family vacation, or college. These accounts usually require you to make regular deposits.

**Certificate of Deposit**

This is an account in which you leave your money for a set period of time, such as 6 months or 1, 2, or 5 years. This period of time is called a term. You cannot make deposits or withdrawals during this term. You usually earn a higher rate of interest than with a regular savings account. The longer you promise to keep your money in the account, the higher the interest rate. You will have to pay a fee if you withdraw your money before the term has ended.

**Money Market Account**

This account usually pays a higher rate of interest and usually requires a higher minimum balance to earn interest than a regular savings account. This account pays a higher rate of interest for higher balances. It does not have a fixed term. You can make deposits and withdrawals.

**Statement Savings Account**

This account earns interest, and you will usually receive a quarterly statement that lists all your transactions – withdrawals, deposits, fees, and interest earned.

| Instructor Notes | Presentation |
| --- | --- |
| | **SAVINGS OPTIONS** (Continued)<br>**Special Accounts** |
| *18: Special Accounts*<br>*Introduce the topic.* | There are three special accounts that will help you save money:<br>• The Individual Development Account (IDA).<br>• The Electronic Transfer Account (ETA).<br>• The 529 College Savings Plan. |
| *Special Accounts* | *Refer students to Special Accounts beginning on page 7 of their Participant Guide.*<br>*Review this information with students.*<br>*Use Instructor Aid #6 on the next page to guide you.*<br>*Provide any information about special accounts offered by local financial institutions.* |
| | Follow along as I read about the major features of these accounts. I am not going to read everything, just enough so that you know what these accounts are.<br>When you get home, you can read the rest of the information about them. |
| *When you have finished describing the special accounts, ask students …* | Do you have any questions about these special accounts? |
| *Transition to the next topic.* | Now, let’s look at options to help you reach your long-term savings goals. |

**Instructor Aid #6**

# SPECIAL ACCOUNTS

## INDIVIDUAL DEVELOPMENT ACCOUNT (IDA)

### What is an individual development account?

Individual development accounts (IDAs) are matched savings accounts. When an account is matched, it means another organization, such as a foundation, corporation, or government entity agrees to add money to your account to match the money you save in it.

### Why would an organization do that?

Organizations will match the money people save in IDAs to encourage low-income families to save money on a regular basis. IDAs are based on the concept that asset building is necessary to break the cycle of poverty and to help families become financially independent. Asset building refers to people purchasing or holding items that will help them financially in the future. Organizations involved in IDA programs want to help low-income families achieve self-sufficiency.

### What can I use IDAs for?

If you open an IDA, the money must be used for a specific purpose. Allowable purposes may include:

- Job training.
- College education.
- Small business start-up.
- Down payment for a home.

There are a few programs that allow you to save for other purposes. However, most programs will only offer accounts for the purposes listed above, because they are likely to increase your future financial security.

### How do IDAs work?

Each IDA program is a little different, so you must ask the person who runs the program in your area about the details. However, all IDA programs have many similar features.

IDA programs are generally run by local community-based organizations. They help to recruit eligible people into the program and usually organize the required training sessions for the participants.

# **SPECIAL ACCOUNTS** (Continued)

## **INDIVIDUAL DEVELOPMENT ACCOUNT (IDA)** (Continued)

Most IDA programs require that the participants take a certain number of financial education courses.

Your reward for saving is the education you receive throughout the program and the money that gets added to your account at the end of the program.

### How can I open an IDA?

If you are interested, you can:

Check the following Websites to search for programs by state: www.gwbweb.wustl.edu/users/csd/ida/ida/html and www.idanetwork.org.

Ask local Community Action Agencies, other community groups, and bankers if they know of any programs in the area.

## **ELECTRONIC TRANSFER ACCOUNT (ETA)**

### What is an electronic transfer account (ETA)?

An ETA is a low-cost savings account that provides federal payment recipients with the opportunity to receive their federal payments through direct deposit. The ETA is offered only through federally insured banks, thrifts, and credit unions.

### Who is qualified to open an ETA?

Anyone who receives any of the following federal payments can take advantage of an ETA:

- Social Security.
- Supplemental Security Income (SSI).
- Veterans' benefits.
- Federal employee salary or retirement.
- Railroad retirement payments.

# SPECIAL ACCOUNTS (Continued)

## How does an ETA work?

The ETA is a voluntary program for both the consumer and the financial institution. Banks, thrifts, and credit unions that partner with the U.S. Treasury to provide the ETA offer an account that features:

- A monthly fee of $3 or less.
- At least four cash withdrawals and four balance inquiries per month at no additional charge.
- No minimum balance, except as required by state law.
- Online point-of-sale transactions in the institution's network, for example U.S. Post Office branches and grocery stores.
- Monthly statements.
- The same consumer protections as other account holders.

Some banks offer more or better services for their ETA program than these minimum requirements. For example, some financial institutions might give you the option to deposit other types of payments into the ETA account. Some institutions may also pay interest.

## How can I open an ETA?

You can find participating financial institutions in your area by accessing the Website www.eta-find.gov or calling 888-382-3311. Participating banks and credit unions cannot refuse to open an account regardless of your credit history, unless you have previously held an ETA that was closed because of fraud.

## 529 COLLEGE SAVINGS PLAN

## Why is it important to save for college?

According to U.S. Census Bureau statistics, people with a college degree earn over 62 percent more on average than those with only a high school diploma. Over a lifetime, that is a more than $1 million gap in earning potential. It is wise to consider getting an education beyond high school.

# SPECIAL ACCOUNTS (Continued)

## What is a 529 Plan?

A 529 Plan is an education saving plan operated by a state or educational institution. It is designed to help families set aside funds to pay for future college costs. There are two kinds of plans: prepaid tuition and savings. Every state offers at least one kind of 529 plan.

- 529 Prepaid Tuition Plan – The states offer prepaid tuition contracts covering in-state tuition. If you want to study in a private or out-of-state school, some plans allow you to transfer the value of the contract to that school, but you may not get the full value of your prepaid amount. Check with your local plan administrator for details. Some higher education institutions also offer their own 529 prepaid programs that allow you to target your tuition prepayment to the sponsoring institution or group of institutions.
- 529 Savings Plan – The full value of the account can be used at an accredited college or university in the United States and at some foreign institutions. See the plan administrator for a current list. Some institutions also offer prepaid savings plans.

## What are the advantages of 529 Plans?

- Investment grows tax deferred, and until 2010 distributions are federal-tax free if they are for college costs of the beneficiary. After 2010, qualified distributions will be taxable to the beneficiary. The student will probably be in a lower tax bracket than you, so he or she will pay less tax.
- The amount is under your control, unlike the case of the custodial account under the Uniform Transfer to Minors Act (UMTA). Under UTMA, the child has control of the money when he or she reaches the legal age of 18.
- Plan assets are professionally managed either by the state's treasury office or by an outside investment firm hired as the program manager.
- Everyone is eligible. There are no income limitations or age restrictions.

## What are some ways to save for college?

1. Establish 529 Plans to save for college (tax deferred).
2. Buy U.S. Savings Bonds to save for college. This is easy through automatic payroll deductions, and earnings may be tax-exempt if qualified.
3. Reduce college costs by completing college work during summer terms at a school close to home, provided the credits will transfer.

# **SPECIAL ACCOUNTS** (Continued)

**529 COLLEGE SAVINGS PLAN** (Continued)

**What are some ways to save for college?**

4. Take some transferable credits when in high school by attending advanced placement courses in the senior year, or taking a College Level Examination Program (CLEP) exam.
5. Consider studying in-state and commuting to college from home to lower tuition, room, and board cost.
6. Buy used books and reduce the use of supplies.
7. Learn to cook and do laundry to reduce the cost of living while boarding.
8. Plan ahead for trips between school and home on the holidays and school breaks. Catch super-saver deals.
9. Look for need-based and academic achievement-based scholarships.
10. If you are interested in serving in the military, check out the ROTC office on campus for scholarship offers.
11. Apply for federal and private student loans.
12. Apply for home equity loans, or get loans from parents or family.
13. Withdraw from IRA and Roth IRA accounts; borrow against 401(k) plans (talk to a tax advisor first).
14. Note that some IDA savings accounts can be used for college or higher education.

| Instructor Notes | Presentation |
|---|---|

**SAVINGS OPTIONS** (Continued)

**Buy an Investment**

*19: Investments*

*Explain what an investment is and how it differs from a deposit account.*

An investment is a long-term savings option that you purchase for future income or financial benefit. Many banks now sell investment products, such as mutual funds.

- We saw earlier that while some investment products are sold at banks, they are not the same as deposit accounts because the money you invest is not federally insured.
- When your invest money, there is also a greater risk of losing it than if you put your money in a savings or other deposit account.

  In fact, there is a possibility that you might lose the entire amount you invest if the investment does not perform well.
- But because of the risk you take when you invest your money, your investment may earn and grow more than a regular savings account.

  In general, the higher the risk, the higher the expected rate of return on the investment.

You make money on investments by selling them for more than you paid for them, or by earning dividends and interest.

The money you earn is considered income; therefore, you may have to pay taxes on it.

**Before You Invest**

*Tell students how to find out more about investing.*

If you are interested in learning more about investment products, talk to

- Your bank,
- A reputable financial advisor, or
- An investment firm.

Ask your employer about any retirement accounts that are offered through your work. You can also do your own research. A public library or the Internet is a good place to start.

| Instructor Notes | Presentation |
| --- | --- |
| | **SAVINGS OPTIONS** (Continued) |
| *Transition to the next topic.* | Now let's look at some of the more popular types of investment products that you can buy. |
| | **Investment products** |
| *20: Investment Products*<br>*Introduce the topic.* | We are going to talk about investment products:<br>• Bonds.<br>• Stocks.<br>• Mutual funds.<br>• Retirement investments. |
| *Explain the importance of having a savings "cushion" before investing.* | Most financial advisors recommend that, before you buy any of these investment products, you should have a savings cushion that will allow you to pay bills and expenses for 2 to 6 months. Any money you have saved beyond this amount can be used for investing.<br>In case of an emergency, sudden illness, or job loss, you always want to be able to support yourself and your family.<br>While you might find this cushion hard to attain, even a small rainy day fund is important. |
| *Investment Products Exercise* | You are probably already familiar with some of these investment products. What I would like to do is have you try to match the name of the account with its description.<br>Do not worry if you do not know the answer. I will give you the right answers and some additional information about each product.<br>*Refer students to Investment Products Exercise on page 12 of their Participant Guide.*<br>*Review the instructions with them.*<br>*Give students a few minutes to complete the activity.*<br>*Provide the correct answers, using Instructor Aid #7 on the next page to guide you.* |

Instructor Aid #7

# INVESTMENT PRODUCTS EXERCISE

**Instructions**

Fill in the blank with the name of the investment product that best describes it.

**Investment Products**

**Bonds**

When you buy this investment product, you are loaning money to a corporation or to the government for a certain period of time, called a term.

**Stocks**

When you buy this product, you own a part of a company, called a share. If the company does well, you might receive periodic dividends. Dividends are part of a company's profits that it gives back to you, the shareholder.

**Retirement Investments**

This is money you invest over a long period of time so that you will have money to live on when you are no longer working.

**Mutual Funds**

This is a company that combines money from many investors and purchases a variety of investment products.

| Instructor Notes | Presentation |
|---|---|
| | **SAVINGS OPTIONS** (Continued) |
| *Investment Products* | Let’s look a little more closely at each of these investment products.<br>We are not going to cover everything about these products today, just enough so that you know what they are and how to obtain additional information.<br>*Distribute the Investment Products handout to students.*<br>*Review as much of the information in it as time will allow, using Instructor Aid #8 on the next page to guide you.*<br>*If you do not cover everything, tell students they can read the handout more carefully when they get home.* |
| *When you have finished describing the investment products and strategies, ask students …* | Do you have any questions about these investment products? |
| *Transition to the next topic.* | Now let’s look at some investment issues you need to consider. |

# INVESTMENT PRODUCTS

## Savings Bonds and Treasury Securities

### *Savings Bonds*

**I Bonds** are purchased at face value, which is the amount printed on the bond. In other words, a $50 bond will cost $50. I Bond interest is composed of a fixed rate plus an inflation rate. Interest is added to the bond monthly and is paid when the bond is cashed. I Bonds must be held for 1 year before they can be cashed. If an I Bond is cashed within the first 5 years, there is a 3-month interest penalty.

**EE Bonds** are purchased at half their face value, so a $50 bond will cost $25. If you buy EE bonds electronically directly via www.TreasuryDirect.gov, they are sold at face value. All EE Bonds purchased after May 2005 earn a fixed rate of interest. EE Bonds must be held for at least 1 year before they can be cashed. If an EE Bond is cashed within the first 5 years, there is a 3-month interest penalty.

### *Other Treasury Securities*

The Federal Government also offers some other investment products:

- Treasury bills, or T-bills, are sold at a discount from their face value and range in terms from a few days to 6 months. When a T-bill matures, you will be paid the face value. They pay interest every 6 months.
- Treasury notes or T-notes pay interest every 6 months and are issued in terms of 2, 3, 5, and 10 years.
- Treasury Inflation-Protected Securities (TIPS) provide protection against inflation, and the interest rate is tied to the Consumer Price Index. TIPS pay interest twice a year.
- Treasury bonds or T-bonds pay interest every 6 months and range in terms from 10 to 30 years.

The minimum purchase price for these products is $1,000.

Buying U. S. Treasury Securities and Savings Bonds is a safe investment because your money is backed by the U.S. government. Savings bonds may be purchased through a payroll deduction, through your financial institution, and at www.TreasuryDirect.gov.

# **INVESTMENT PRODUCTS** (Continued)

**Corporate Bonds**

When you buy this investment product, you are lending money to a corporation for a certain period of time, called a term. The corporation promises to repay the amount of money you are lending it on a specified date in the future. In addition, it may promise to make regular interest payments to you.

You may lose money if the corporation fails to honor its promises.

**Stocks**

When you buy a stock, you own part of the company, called a share. A company that does well might periodically pay you dividends. Dividends are the portions of the company's profits that it gives to you as a shareholder.

The value of your investment changes according to the stock market. When you sell the stock, you may either earn additional money or lose money.

**Mutual Funds**

Mutual funds are offered by companies that combine money from many investors to purchase numerous separate investments. The investment products in a mutual fund are managed by a professional and typically include numerous stocks and bonds.

By combining your money with the money of other investors, you can diversify even a small investment. Diversification is the concept of "don't put all of your eggs in one basket." Diversification reduces the risk that you will lose your money because you spread the risk of loss across many savings and investment options.

Like stocks, mutual funds may pay dividends, and may also gain or lose money over time.

# **INVESTMENT PRODUCTS** (Continued)

### Retirement Investments

Several investment products are designed to help you save toward retirement:

- Individual retirement arrangements (IRAs).
- 401(k) and 403(b) plans.
- Variable annuities.

### Individual Retirement Arrangements (IRA)

An IRA is the most basic sort of retirement arrangement. If it is held by an insured financial institution, it is insured up to the maximum allowed by law. You may talk to your tax advisor for more details and/or review IRS Publication 590, *Individual Retirement Arrangements (IRAs).*

***Traditional IRA*** – A traditional IRA is a personal savings plan that gives you tax advantages for saving for retirement. Contributions to a traditional IRA may be tax deductible based on the amount of your contribution and your income. The earnings on the amounts in your IRA are not taxed until they are distributed. The portion of the contributions that was tax deductible also is not taxed until distributed. A traditional IRA can be established at many different financial institutions, including banks, insurance companies, and brokerage firms.

***Roth IRA*** – A Roth IRA is also a personal savings plan but operates somewhat the reverse of a traditional IRA. For instance, contributions to a Roth IRA are not tax deductible while contributions to a traditional IRA may be deductible. However, while distributions (including earnings) from a traditional IRA may be included in income, the distributions (including earnings) from a Roth IRA are not included in income. For both IRA types – traditional and Roth – earnings that remain in the account are not taxed. A Roth IRA can be established at the same types of financial institutions as a traditional IRA.

***Payroll Deduction IRA*** – Under a payroll deduction IRA, an employee establishes an IRA (either a traditional or a Roth IRA) with a financial institution. The employee then authorizes a payroll deduction for the IRA, with the remainder of the employee's pay distributed to the employee as before.

# **INVESTMENT PRODUCTS** (Continued)

### 401(k) and 403(b) Plans

***A 401(k)*** plan is a retirement savings plan established by an employer that lets its employees set aside a percentage of their pay before taxes are taken out. Often, employers may offer matching contributions.

***A 403(b)*** plan is a retirement savings plan for employees of public schools and certain tax-exempt organizations.

Characteristics of 401(k) and 403(b) plans include:

- Maximum contribution limit per year.
- Penalty on early withdrawal before age 59½, except in special circumstances.
- They are portable.  You can roll over to an IRA, or roll over into the 401(k) plan of your new employer.
- You may be able to choose how to invest the money in your plan.

### Variable Annuities

A variable annuity is an insurance contract that invests your premium in various mutual fund-like investments. It is usually sold by financial brokers and insurance agents as an investment toward retirement. The brokers and agents earn a commission on the annuity sold and may be motivated to sell you something that may not be best for you financially.

Variable annuities can be very costly. You should hold the annuity for at least 10 to 20 years to justify the fees. Fees associated with variable annuities include:

- High annual fees, typically 50 percent to 100 percent more than annual fees of comparable mutual funds.
- Surrender charges on early withdrawal and withdrawal over a certain percentage.
- Ten percent federal tax penalty on early withdrawal before age 59½.
- Life benefit guarantee fee.

A life benefit guarantee fee is a fee the investor pays to guarantee that the investor gets at least the original investment back at retirement.

| Instructor Notes | Presentation |
|---|---|
| | **SAVING OPTIONS** (Continued) |
| | **How to Choose the Best Investment** |
| *Investment Issues to Consider* | *Refer students to the Investment Issues to Consider on page 13 of their Participant Guide.*<br>*Review the strategies with students. Use Instructor Aid #9 on the next page to guide you.* |
| | Let's look at some strategies that will help you choose the best investment for you. |
| *When you have finished discussing the investment issues, ask students …* | Do you have any questions about these investment issues? |
| *Transition to the next topic.* | There are two more investment options that we need to talk about. |

**Instructor Aid #9**

## INVESTMENT ISSUES TO CONSIDER

1. Learn as much as you can about the investment from the prospectus, financial magazines, and the plan administrator.
2. Remember that past performance is not a guarantee of future performance.
3. Consider how long you plan to keep your money in the investment. If you invest over time, you are more able to ride out the ups and downs of the stock market.
4. Do not put all your eggs in one basket. You should have a mix of investment products that reflect your needs for return, safety, and long-term savings.
5. You ideal composition of investment products will shift over time, so re-evaluate what you have from time to time.
6. Determine how much risk you are willing to tolerate. Remember, there is a trade-off between risk and return.

Before investing for retirement:

- Ask your employer about any retirement accounts that are offered through your work.
- Learn more about investment options from your bank's customer service representative or a reputable financial advisor.
  - Do not follow investment advice blindly. Do your own research.
  - Read the prospectus of an investment product or instrument carefully.
  - Get more information from reliable sources.
  - Use the public library for more resources.
- Do not invest in anything you do not fully understand.

Remember, investments are NOT federally insured. You can lose the interest AND the principal of your investment.

Resources:

- Internal Revenue Service: www.irs.gov
- Source: www.pueblo.gsa.gov/cic_text/money/401k/401k.htm

| Instructor Notes | Presentation |
|---|---|
| | **SAVINGS OPTIONS** (Continued) |
| | **Other Investments** |
| *21: Other Investments* | Owning a home or business are two additional ways to invest. |
| *Ask students ….* | Why do you think owning a home is an investment?<br>*Acknowledge students' responses.* |
| *Explain why own a home is considered an investment.* | Owning a home is an investment because the house generally increases or appreciates in value. When your home increases in value and your debt decreases as you pay the mortgage, your "equity" increases. |
| *Define equity.* | Equity is the difference between how much the house is worth and how much you owe on the house. |
| *Write example on chart paper.* | For example:<br>Value of home = $250,000<br>Minus Debt (how much you owe) = $200,000<br>Equity = $ 50,000 |
| *Explain why owning a business is considered an investment.* | Owning a business is an investment as well. Although starting a business can be risky, if planned and managed correctly, it has the potential to increase your future financial security. |
| *When you have finished reviewing the strategies, ask students …* | Do you have any questions about the investments and strategies we have discussed today? |
| *Transition to the next topic.* | Let's look at how to select the right combination of savings and investment products for you. |

| Instructor Notes | Presentation |
|---|---|

## HOW TO CREATE A SAVINGS ACTION PLAN

### Decision Factors

*22: Decision Factors*

*Describe the factors to be considered in selecting saving and investment options.*

You need to consider three decision factors when selecting the best savings and investment options.

- How much money do you want to accumulate over a certain period of time?

  You can figure this out by using the Rule of 72. This rule tells you how long it will take for your savings to double in value. It also tells you what interest rate you will need when you know in how many years you want your money to double.

- How long can you leave your money invested?

  If you have some money you will not need for several years, you might consider investment options such as stocks, bonds, or mutual funds.

  On the other hand, if you think you might need access to your money right away, it might be best for you to keep it in a savings account where you have immediate access to it.

- How do you feel about risking your money?

  As we have seen, if you are not comfortable with risk and cannot afford to lose the money, you might consider depositing your money in an insured financial institution. You will need to shop around for the account that best meets your needs.

*Transition to the next topic.*

Now you are ready to develop an action plan you can follow to begin moving you toward your savings goals.

*Pay Yourself First Action Plan*

We are going to use the Pay Yourself First Action Plan to write down the action steps we intend to take to save toward our goals.

> *Refer students to the Pay Yourself First Action Plan on page 14 of their Participant Guide.*
>
> *Review the form with them, using Instructor Aid #10 on page 42 to guide you.*

| Instructor Notes | Presentation |
|---|---|

**HOW TO CREATE A SAVINGS ACTION PLAN** (Continued)

The top half of the plan gives you space to record answers to decisions you need to make before deciding on the steps you will take.

The bottom half of the plan gives you space to record the steps you can start taking now, a month from now, and a year from now.

For example, what can you do now to save?

You might be able to cut back on the number of sodas you drink each day. Saving $1 a day adds up to $365 by the end of the year.

*Give examples of steps students can take to save now, a month from now, and a year from now.*

What can you do by the end of the month to save?

Next month, you could pay off a loan and continue making those payments into your savings account.

What can you do by the end of the year to save?

By the end of the year, you will probably have enough money to buy a U.S. Savings Bond as a long-term investment.

Take a few minutes to begin answering the questions on the form.

*Give students a few minutes to complete the worksheet. Write down some action steps for yourself.*

*Ask for volunteers to share and/or share some of the steps you wrote.*

*When you have finished discussing the action plan, ask students …*

Do you have any final questions about paying yourself first?

*Transition to the next topic.*

Let’s look at what you have learned today.

# PAY YOURSELF FIRST ACTION PLAN

**Decision Factors**

How much do I want to accumulate over a certain period of time?

How long can I leave my money invested?

How do I feel about risking my money?

**Action Plan**

What will I do now to save toward my goals?

What will I do by the end of the month to save toward my goals?

What will I do by the end of the year to save toward my goals?

| Instructor Notes | Presentation |
| --- | --- |

## SUMMARY AND CONCLUSION

### Summary

Congratulations! You have completed the Pay Yourself First module. We have covered a lot of information today about how to save for the future. You learned:

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

*Review what was covered in the module.*

*Review the chart papers with students' expectations, questions, and concerns to make sure they have all been covered.*

You should now be able to take this information and begin saving in earnest.

*Ask students …*

Do you have any final questions?

### Evaluation Form

*Refer students to pages 15 through 17 of their Participant Guide.*

*Allow time for students to complete it.*

To improve the training, we will need your feedback. The After-the-Training column on the What Do You Know? form and the Evaluation Form will identify changes that can make this training  better.

Please complete the After-the-Training column and the Evaluation Form now.

*Make sure you collect all the forms.*

Great job on completing the Pay Yourself First module! Thank you for participating.

# WHAT DO YOU KNOW? – PAY YOURSELF FIRST

Instructor: ________________________________ Date:______________________

This form will allow you and the instructors to see what you know about savings both before and after the training. Read each statement below. Please circle the number that shows how much you agree with each statement.

| | Before-the-Training | | | | After-the-Training | | | |
|---|---|---|---|---|---|---|---|---|
| I know: | Strongly Disagree | Disagree | Agree | Strongly Agree | Strongly Disagree | Disagree | Agree | Strongly Agree |
| 1. Why it is important to save. | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 2. How to determine goals toward which I want to save. | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 3. How to identify savings options. | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 4. Which savings options will help me reach my savings goals. | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |

# EVALUATION FORM

This evaluation will allow you to assess your observations of the Pay Yourself First module. Please indicate the degree to which you agree with each statement by circling the appropriate number.

| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|---|
| 1. Overall, I felt the module was:<br>[ ] Excellent<br>[ ] Very Good<br>[ ] Good<br>[ ] Fair<br>[ ] Poor | | | | | |
| 2. I achieved the following training objectives: | | | | | |
| a. Explain why it is important to save. | 1 | 2 | 3 | 4 | 5 |
| b. Determine goals toward which I want to save | 1 | 2 | 3 | 4 | 5 |
| c. Identify savings options. | 1 | 2 | 3 | 4 | 5 |
| d. Determine which savings options will help me reach my savings goals. | 1 | 2 | 3 | 4 | 5 |
| 3. The instructions were clear and easy to follow. | 1 | 2 | 3 | 4 | 5 |
| 4. The overheads were clear. | 1 | 2 | 3 | 4 | 5 |
| 5. The overheads enhanced my learning. | 1 | 2 | 3 | 4 | 5 |
| 6. The time allocation was correct for this module. | 1 | 2 | 3 | 4 | 5 |
| 7. The module included sufficient examples and exercises so that I will be able to apply these new skills. | 1 | 2 | 3 | 4 | 5 |
| 8. The instructor was knowledgeable and well prepared. | 1 | 2 | 3 | 4 | 5 |
| 9. The worksheets are valuable. | 1 | 2 | 3 | 4 | 5 |
| 10. I will use the worksheets again. | 1 | 2 | 3 | 4 | 5 |
| 11. The students had ample opportunity to exchange experiences and ideas. | 1 | 2 | 3 | 4 | 5 |

| | None | | | | | Advanced |
|---|---|---|---|---|---|---|
| 12. My knowledge/skill level of the subject matter before taking the module. | 0 | 1 | 2 | 3 | 4 | 5 |
| 13. My knowledge/skill level of the subject matter upon completion of the module. | 0 | 1 | 2 | 3 | 4 | 5 |

**Continued on next page . . .**

# **EVALUATION FORM** (Continued)

**Instructor Rating**

Please use the response scale and circle the appropriate number.

| **Response Scale:**<br>**5 Excellent**<br>**4 Very Good**<br>**3 Good**<br>**2 Fair**<br>**1 Poor** | **Name of Instructor** |
|---|---|
| Objectives were clear & attainable | **5 4 3 2 1** |
| Made the subject understandable | **5 4 3 2 1** |
| Encouraged questions | **5 4 3 2 1** |
| Had technical knowledge | **5 4 3 2 1** |

What was the most useful part of the training?

_______________________________________________

_______________________________________________

_______________________________________________

What was the least useful part of the training?

_______________________________________________

_______________________________________________

_______________________________________________