HIGH SCHOOL | UNIT 5
Paying Yourself First

Title

Spend Now or Spend Later?

LEARNING OBJECTIVE(S)

Students will:

- **identify** reasons that people save money.
- **explain** the benefits of starting to save at an early age.

Topic

Deciding to Save Money

Overview

What will happen if you don't save money? What are the major reasons young people should save some of their money? Students will create timelines that represent their futures and consider how they will earn and spend money 5, 25, and 50 years from now. Using an online savings calculator, students will explore the impact of saving early and the importance of compound interest. To help promote regular savings, students will be encouraged to think about it as "spending in the future."

Financial Literacy Theme

Saving

21st-Century Skill(s)

Critical Thinking

Key Terms

Saving, emergency savings, retirement, interest

Materials

- **Sticky notes or slips of paper and tape**–ten or more per student
- **Future Spending Student Capture Sheet**–one copy per student
- **Signs–**seven signs, each with one of the following written on them: 20, 30, 40, 50, 60, 70, 80
- **Internet access**

Interactive Student Capture Sheet

The Unit 5 Interactive Student Capture Sheets include a version of the Future Spending Student Capture sheet from this activity (slide 9).

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Connect

How does this connect to the student?

For some students, savings may have a negative connotation. When they think about what they are giving up now in order to save for the future, they may find saving money restricting. Getting students to think about savings as money they will spend in the future can help them reframe their approach and more willingly save.

How does this connect to careers?

Financial Advisor: Many people need help deciding how much money they should save—especially for retirement. Financial advisors help people determine their goals and how much they will need to live comfortably in retirement. They then help develop a plan for saving and investing to reach the person's goal.

How does this connect to the world?

Calculating how much money you might need to save for a future expense or retirement used to involve considerable calculations. Now there are websites and apps that make these calculations much easier. A search for "retirement savings calculator" yields more than 4 million results. Students should be encouraged to try different calculators and compare the outcomes.

Prepare

Background: People usually save for one of three reasons: to reach a savings goal, to be prepared for emergencies, or for financial security in retirement. Travel, higher education, vehicles, homes, and other large purchases are all examples of savings goals that people might have. Emergencies, on the other hand, are usually difficult to anticipate. Some people refer to saving for emergencies as "saving for a rainy day" or having a "rainy day fund." Young people might set money aside for unexpected car repairs, or to repair or replace electronic devices. Saving for retirement is often the hardest scenario for students to imagine, yet starting to save at an early age is important for future financial stability. Saving early and often allows students to take advantage of the power of compound interest. Compounding is when the interest you earn from your savings and investments is reinvested—providing an opportunity to earn even more.

Engage

Note: Before class, hang the signs around the classroom.

- Ask students to think about their futures. Where do they plan to live? What careers do they see themselves having? Do they hope to get married or have children?
- Distribute sticky notes or slips of paper to each student. Explain that the signs around the room represent a timeline of their future ages. Direct students to write down what they think they will be doing at each age on the papers provided and post them near the appropriate sign. Examples might include graduating from college, buying a car, getting a first job, buying a home, getting married, having a child, retiring, moving to another town, etc.

Teach

- Ask how thinking about the future is connected to saving. Many future goals require money. Discuss how specific milestones students added to the timeline could be achieved through savings.

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- Tell students that many people struggle to save because they think of it as giving up the opportunity to spend now. To overcome this, it helps to think about savings as future spending.
- Distribute the **Future Spending Student Capture Sheet** to students. Explain that you want them to focus on three specific points in the future: 5, 25, and 50 years from now. Allow students ample time to complete the handout. Invite students to form small groups to compare answers. Ask a representative from each group to report their key takeaways with the class. What similarities and differences were noted between responses?
- Share with students that the three primary reasons people save money are for **savings goals, emergencies,** and **retirement.** Ask students to share examples of savings goals they included on their handouts or the timeline, such as buying a car or home (down payment), going to college, or taking a vacation.
- Remind students that 50 years from now they might not be working or earning an income. Ask students for possible reasons why this might be the case. What are the consequences of not having an income? How will they pay their bills? What impact will this have on their lives? Explain that, in order to spend money in the future, it pays to start saving early.
- Demonstrate the difference saving early can make using a savings calculator such as this one from Bankrate.com. Explore a variety of hypothetical situations such as those shown below and discuss the impact each change has on the total amount saved. Explain that interest rates will vary depending on the type of account used. For example, savings accounts generally earn less interest than certificates of deposit or money market accounts. To achieve even higher rates, individuals usually need to invest in stocks, bonds, or mutual funds. Doing so, however, also involves taking on more risk. **Note: The rates used in the example below are higher than what students likely will be able to earn with a standard savings account, but the purpose of the exercise is to show students the value of saving early and often. With low interest rates, this is harder to illustrate.**

	Open account now with $200 and deposit $50/month for next 50 years	Wait 20 years to open account	Open now but deposit $100/month	Open now and deposit $100/month with greater interest
Initial Amount	$200	$200	$200	$200
Monthly Deposit	$50	$50	$100	$100
Annual Interest Compounded Monthly	6.50	6.50	6.50	8.50
Number of Years	50	30	50	50
Calculated Result	**$231,868.13**	**$56,707.26**	**$458,623.24**	**$974,701.51**

- Make sure students understand that time is not the only factor in increasing one's savings. The **interest** rate plays a large role, too. Explain that money grows differently depending on the interest rate. Compound interest is interest paid on both the money deposited and the interest already earned. The greater the interest rate, the more money you earn on your savings.

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- Explain that many adults do not begin saving for retirement until they are older, thereby missing out on much of the benefit of compound interest. Ask them why they think so many adults wait to save. What would they need to do to start saving for retirement early? Encourage students to write down steps they can take now and ones they will need to take in the future. For example, in order to earn interest, they will need to put their money in an account that pays interest. If they do not currently have such an account, opening one could be their first action step.
- Acknowledge any student concerns about having money to save. For low-income students, in particular, this may seem like an insurmountable challenge. Remind students that there are ways to find money to save including earning additional income and increasing one's earning potential through additional training and/or education.
- Challenge students to summarize the most important takeaways from the activity. Possible responses might include:
    - People have a choice when they earn or receive money. They can spend it all or save some to spend later.
    - Developing a habit of saving money and putting that money in an account that earns interest helps people reach their savings goals and be prepared in case of an emergency. It also gets them on the road to financial security in retirement.
    - Thinking about saving as future spending can make it easier to do.
    - Starting to save earlier and earning a higher interest are ways to boost savings amounts.

Extend

- **Research:** Encourage students to research savings options from one or more financial institutions. What interest rate is paid on basic savings accounts? Can more interest be earned with a certain deposit amount? What are the requirements for opening a certificate of deposit and what interest rates are offered? Do they offer money market savings accounts, and, if so, what are the terms?
- **Family:** Nearly half of all American families have not saved money for retirement. Encourage students to talk to a retired family member about what they did to prepare for retirement and if they wish they'd done anything differently.
- **Technology:** Invite students to view a future version of themselves using an online tool or mobile app. Many photo and social media apps have filters that will age people, as well. Research suggests that if individuals imagine what they will look like when they are older, they are more likely to save for the future.

Standards Correlation

The following standards are addressed in this activity.

National Standards for Personal Financial Education from the Council for Economic Education and Jump$tart Coalition for Personal Financial Literacy

- III. Saving 4-3 People differ in their values and attitudes about saving.
- III. Saving 8-1 People save money for many different purposes, including large purchases such as cars and homes, education costs, retirement, and emergencies.
- III. Saving 8-2 Savings decisions depend on individual preferences and circumstances, and can impact personal satisfaction and financial well-being.

National Standards for Business Education from the National Business Education Association

- Personal Finance III.1.10 Discuss reasons why income and spending patterns change throughout the life cycle for the typical person and family.
- Personal Finance IV.1.1 Describe motivations for saving and the means by which they save.
- Personal Finance IV.1.11 Explain why individuals should change their savings and investing plans throughout their life cycles.

DISCOVER
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Discovery EDUCATION

Future Spending

STUDENT CAPTURE SHEET

Directions: What will your life look like 5, 25, and 50 years from now?

	5 Years	25 Years	50 Years
How old will you be?			
Where will you live?			
How will you earn money?			
What will you do with your time?			
How will you spend your money?			