Saving Is Your First Line of Defense

Saving money is an important part of being financially responsible. People save for short-term goals (clothes, a nice restaurant), mid-term goals (a trip, a concert) and long-term goals (college, retirement, a house). Everyone should also have a financial goal of having an emergency fund. This type of savings plan is a priority: putting money aside for emergencies is important so you won't have to borrow money unexpectedly. When you have to borrow without a plan, you run the risk of going into debt (owing a lot of money) or being unable to pay for the things you need (such as food and electricity). Learn more in this video.

Features of Savings Accounts

Interest rates are the percentages that determines the amount of money earned as a reward for saving your money in a certain account. The higher the interest rate on the savings account, the more interest you earn for saving your money.

Insurance: Some accounts are federally insured by the FDIC, usually up to $250,000. This means that if the bank closes down and loses all of its money, your money will still be safe up to $250,000.

Access to money: The access that you have to money depends on the type of account. Some accounts give you access to your money at any time and provide checks or cards that link directly to your bank account. Other accounts limit *how much* money you can take out and *when* you can access your money.

Limitations: Some accounts limit how much money you need to open an account called a minimum deposit and how much money must stay in your account called a minimum balance. For instance, if an account has a minimum deposit of $1,000 and a minimum balance of $100, that means you must have $1,000 to open the account and you must have $100 or more in the account at all times.

Fees are extra money that you pay for your account. Some accounts charge fees every year for having the account. These are called *annual fees*. Other accounts charge you a fee if you do a specific action like go under a certain amount, called a *minimum balance fee*, or you spend more than is in your bank account, called an *overdraft fee*. There can be many different fees for different reasons, so it is important to do your research.

QUESTIONS:

1. Why is it important to have an emergency fund?
2. What type of "emergencies" might you use an emergency fund for as a 16-year old student? What about a 25-year old who works and lives on your own?
3. Choose the right account for each question from the Types of Savings Account page:
   A. Which type of account generally offers the *lowest* interest rate?
   B. If you want quick access to money many times a month, which type of account is best?
   C. Which type of account has the most restrictions on your money?
4. Which kind of account do you think is best for an emergency fund and why?

CHALLENGE: Complete the **Phone Fail** on the next page. Answer all questions for each scenario presented.

Consider or Discuss:
What are some consequences of not having an emergency fund?

Types of Savings Accounts

Directions: The table below describes four types of savings accounts based on the features you learned about. Read over each type of account and then use the scale at the bottom of the table to answer questions 3 - 4 in the gray box of the first page.

	Commercial Savings Account: An account held at a bank that has actual locations (branches) you can visit.	**Online Savings Account** An account held at a bank that works only online with no actual locations.	**Money Market Account:** An account held by a bank that can offer higher interest rates with some restrictions.	**Certificate of Deposit**: An account that gives you a fixed interest rate if you leave your money there for a set amount of time.
Interest Rates	Currently the lowest between .01% and .1%	Some of the highest 1.5% - 3%.	Between 1% - 3%.	Between 1% - 2.5%, Normally the longer you agree to keep your money in the CD, the higher the interest rate.
Insurance	FDIC insured	Most are FDIC insured	FDIC insured	FDIC insured
Access to Money	Access anytime by check or transferring to a linked checking account. The transfer can happen in minutes.	Must first transfer your funds to a different account, normally at a commercial bank. The transfer can take up to 5 days.	Many limit how much you may access at one time and how many times a year you can take out money.	You do NOT have access to your money until after a certain period of time that you agree to with the bank. This can be from 3 months to 5 years.
Limitations	May have a minimum balance and minimum deposit but generally less than Money Market Account.	May have a minimum balance and minimum deposit but generally less than Money Market Account.	Has the highest minimum balance and minimum deposits Limits how often you can take your money out.	You do NOT have access to your money until after a certain period of time has passed, unless you pay a high fee.
Fees	May have: Overdraft fee, Annual fee, Minimum Balance Fee	May have: Overdraft fee, Annual fee, Minimum Balance Fee	May have: Annual fee Minimum Balance Fee Fees as a penalty for accessing your money more often than you are allowed.	Fees as a penalty for accessing your money before the time period is up.

FitMoney Case Study: Saving for the Unexpected

Challenge: Phone Fail

What happened!?! You drop your phone! The screen is cracked beyond repair, the microphone broke, and the speaker is out of commission. A new phone costs $799 ($850 with tax and fees) to get the same model (not even an upgrade). Read your payment options below and answer each question that follows.

Scenario 1: You borrow $850 from your family. They charge you a $50 fee (just like a bank would charge you interest on a loan, but they give you a good deal). You promise to pay them back $20 every month.

1. How long will it take you to pay your family back, including interest?__________
2. What current expenses are you going to give up so that you can afford to pay your family back each month?

Scenario 2: You have $1,000 saved in an emergency fund. You decide to get a new phone and pay $610 now (down payment). The phone company will let you pay the rest ($240) monthly over the next two years (24 months).

3. How much will you have left in your emergency fund right after you make the down payment? _______
4. If you save $20 per month, how many months will it take to get you back to $1,000 in your emergency fund? ____________
5. How much will you have to pay (per month) to the phone company for the next two years? _______

Scenario 3: You don't have an emergency fund and no way of borrowing the money.

6. What will you do?

Discuss: What are some consequences for you of not having an emergency fund? What are some consequences for an adult who does not have an emergency fund?