

Assignment 5: SAVINGS

Name: _____ **Slot:** _____ **Date:** _____

- Saving simply means not spending or setting money aside for a special purpose.
- When people save, they can accumulate money for other things, including:
 - + to buy a big item or pay for a big bill that's coming
 - + to have emergency funds
 - + to build funds to invest
- When people accumulate money (while saving for a car, a holiday or university), they can keep the money in a chequing account, or they can put it to work by investing it.
- When you put money in a savings account, you're lending your money to the bank.
- The bank protects your savings and guarantees that it'll be there when you need it.
- You're also putting it to work - the bank uses the money (to lend to other people or to invest) and in exchange pays you a fee in the form of interest.
- Because your money is safe and you have the right to take it back almost any time, the bank pays only a low interest rate; if you're willing to let the bank keep it for a longer time you can put your savings in a term deposit or a guaranteed investment certificate (GIC) and the bank will pay a higher interest rate.

HOW TO INCREASE YOUR SAVINGS

a) **Reduce spending on "wants"**

- Look at how much could be saved by cutting back on "wants" .
 - + E.g.: spending \$1.50 on soft drinks once a day doesn't seem like much, but it adds up to:
 - \$10.50 a week (enough for two kilos of ground beef or a kilo of salmon steaks)
 - \$45 a month (enough for a monthly student transit pass)
 - \$550 a year (enough for a month's rent in some places)

b) **"Pay yourself first"**

- The easiest way to save is to save the first 10% of income after deductions.
 - + Put it away before you spend it.
 - + A small percentage deducted from a paycheque won't be noticed, but will accumulate over time.
 - + You can arrange to have your bank automatically transfer a small amount of your pay cheque into a savings account. (The bank will have the discipline even if you don't!)

c) **Put your savings to work**

- Who has a savings account, is it one you set up yourself or did someone set up for you, does the account has any particular purpose.

- A savings account is one way to save, and there are many others. Those that earn money in the form of interest (or other profits) are called **investments**. The most common ones are:

- + **Savings account** - a deposit account that's secure but accessible and pays a small amount of interest

- it's a form of investment because the money earns interest.

- People don't usually think of a savings account as an investment, because the return is low, and people often choose to move some of their savings to other types of investment that pay a better return.

- **Guaranteed investment certificate (GIC)** - a deposit for a fixed period of time that pays a set (or sometimes variable) interest rate. Term deposits are very similar.

- **Canada Savings Bond (CSB)** - a loan to the Government of Canada at a guaranteed interest rate (that may change from year to year.)

- The key point is to start the habit of saving and put those savings to work so that they earn you more money.

Savings Add Up

a) **Savings add up** - financial institutions pay interest on deposits

- **Simple interest** is paid only on the initial deposit.

- **Compound interest** is paid on the initial deposit and on any interest that has been earned, so your money grows more rapidly.

- In Canada, financial institutions pay compound interest on most accounts, which is usually paid and compounded monthly.

- Interest compounding means that starting long-term savings while young creates a big advantage.

- Financial institutions pay different rates of interest so it's a good idea to shop around.

Compare the rates of 2 banking institutions in Labrador West.

The Rule of 72 is an easy way to calculate approximately how long it takes for your savings to double at a compound interest rate.

- **Divide 72 by the interest rate** to find out the number of years it will take to double the amount saved.

- **Divide 72 by the number of years of saving** to find out the interest rate needed to double the amount saved.

CALCULATING SAVINGS

Name: _____ Slot: _____ Date: _____

Roughly how long will it take to double my money?

Using compound interest:

$72 \div \text{interest rate} = \text{number of years to double savings}$

How long will it take if the interest rate is 5% _____

$72 \div \text{years} = \text{interest rate needed to double savings}$

What interest rate do you need If you have 10 years to double your money? _____

Savings add up when you follow a regular savings plan. Calculate the answers to the problems below. Show the steps needed to arrive at your answers. You may use an electronic spreadsheet for your calculations if you show the formulas used at each step.

1. If you put \$250 into an investment that paid 5% *simple* interest each year, how much interest would you earn in five years? What would your savings be worth at the end of five years?

	Year 1	Year 2	Year 3	Year 4	Year 5
Investment					
Interest					
Total					

2. If you put \$250 into an investment that paid 5% *compound* interest each year, how much interest would you earn in five years? What would your savings be worth at the end of five years?

	Year 1	Year 2	Year 3	Year 4	Year 5
Investment					
Interest					
Total					

3. If you put \$240 each year into an investment that paid 5% *compound* interest each year, how much interest would you earn in five years? What would your savings be worth at the end of five years?

	Year 1	Year 2	Year 3	Year 4	Year 5
Carry over	\$0				
Annual Contribution	\$240.00				
Subtotal					
Interest					
Total					