Money Management Curriculum

Module 5: Savings and Budgeting-Budgeting

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Each university is an affirmative action/equal opportunity institutions

Acknowledgments: Vicki Hebb, reviewing content, and Russ Tronstad (University of Arizona) and Stuart T. Nakamoto (University of Hawaii), content.

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Teaching Notes:

This module covers short- and long-term savings goals. Help your students understand the difference between good and bad savings goals. Good savings goals are realistic, obtainable, and measurable. Although "save more" sounds like a good goal, there is no direction or timeline. Instead, you could rephrase it to "cut back on the number of times I go out to eat and put $30 into my savings account each week instead." Help your students define their goals with a plan and a timeline to achieve them. This module is interactive, so have an open discussion with your students about the types of goals they want to reach and help them create a plan to achieve them. This module also uses the MyFi Assist app to help your students create a savings plan. Sometimes their goals might not be realistic and they will have to adjust (e.g., becoming a millionaire in 20 years). This example might be a little over reaching, but they can use the app to get a more realistic idea of what they should be saving each month to be financially sound at retirement. Go over the cash flow and budget assignment with your students and help them introduce savings into their budgets if they haven't done so already. Their savings plans should include an emergency fund, a long-term goal like retirement, and at least one short-term goal. If your students' budgets seem to be stretched, help them identify areas where they can spend less or find areas where they can earn extra income.

Educational Objectives:

- Understand and identify the differences between long-term and short-term savings goals.
- Recognize the difference between good and bad savings goals.
- Understand what a rate of return is and how that relates to risk.
- Identify the different places you can save your money and which options are best for short- and long-term savings goals.
- Understand the impact of inflation on long-term savings

Discussion Topics:

- What are some examples of bad short-term savings goals, and how can we turn them into good goals?
- What are some examples of bad long-term savings goals, and how can we turn them into good goals?
- What are some examples of planned annual expenses? How might we budget for them?
- What is the benefit of having an emergency fund? What might happen if you don't have one?
- Why is it important to think about your goals?

Resources:

- **Worksheets:**
  a. **Short and Long Term Savings Goals** – This worksheet will help your students quantify their goals. This can be done in class while having an open discussion about

different types of goals, what makes them good or bad goals and how can we turn bad goals into good goals. Students also have the option to complete this outside of class to more fully develop their goals, make sure they understand how to articulate their goals before sending them home to complete this.

- **Other:** MyFi Assist App

Outline:

1. Key Concepts
2. Savings Goals
    a. Short-Term: Planned Annual Expenses and Emergency Funds
    b. Long-Term: Retirement and Education Fund
3. Good vs. Bad Savings Goals
    a. Short- and Long-Term Saving Goals Exercise
4. Risk and Rates Over Time
    a. Rate of Return
    b. The Effect of Interest Rates on Savings Requirements
5. Using MyFi Assist
    a. Savings Payments under Differing Interest Rates
6. Where Do I Save My Money?
    a. Planned Annual Expenses – Bank Savings Account
    b. Emergency Funds – Separate Savings Account or a CD
    c. Long-Term – Bank Accounts to the Stock Market
7. Budget Check-Up and Questions
8. Finding Ways to Save
    a. Spend Less
    b. Earn More
9. Inflation
    a. Affects Your Long-Term Savings Goals
    b. Using MyFi Assist “Savings Amount” to Show the Effects of Inflation
10. Take-Home Message

Managing Money Curriculum

Module 5: Saving and Budgeting

Budgeting Exercise Checkup

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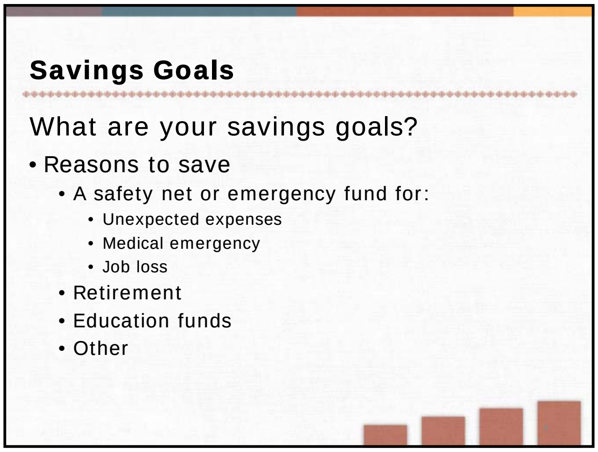
Key Concepts

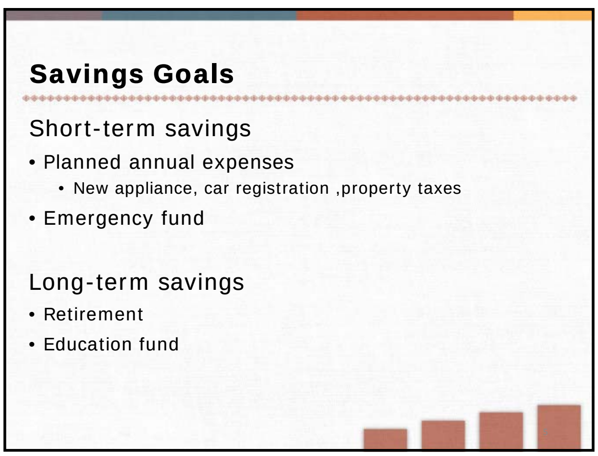
- Short-term and long-term savings goals
- Rate of return on savings and investments
- Risk
- Savings using MyFi Assist
- Where should I save my money?
- Finding ways to save



Slide 4: Savings goals can often be the motivator to get out of debt and to learn more about managing money. Even if they are at the stage where they are trying to get out of debt, it is still good to think about savings goals.

For youth, saving for retirement is a great example and motivator, because they have a lot of years to earn interest they do not need to save that much.

It might be nice to have the class discuss again what their savings goals are? Why did they decide to take this class? What motivates them? Do your students discuss or share their savings goals with their partner/significant other?

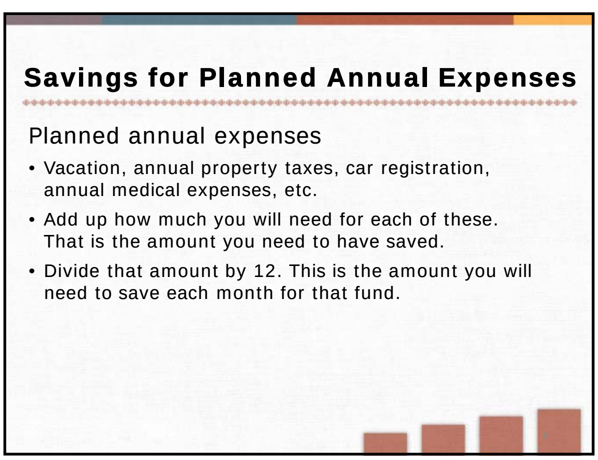


Slide 5: There are different types of savings goals.

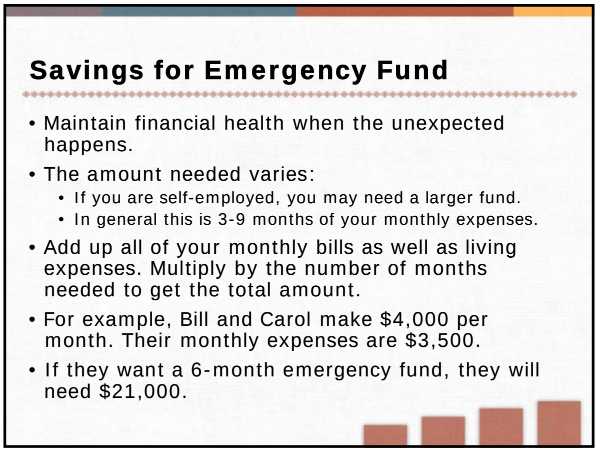
Planned annual expenses are amounts you include in your budget each month towards planned annual expenses. This could be an annual insurance bill, expenses in the fall for children going back to school, property taxes, car registration, etc. These expenses do not happen every month and without the savings, you might end up paying for them with a credit card.

Emergency fund – is an amount that you have available for an emergency (i.e. loss of job, medical issue, etc.)

Long-term savings include retirement and education funds.

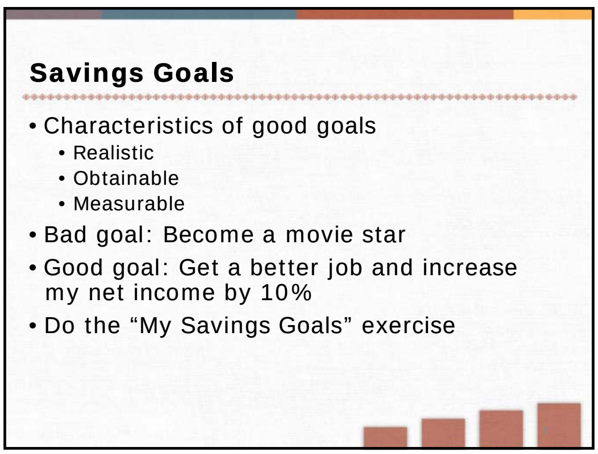


Slide 6: When preparing a budget you would include this as an amount each month. You would set it aside and then have it available when you need it.



Slide 7: Common causes for bankruptcy include reduced income, job loss, credit debt, illness/injury, unexpected expense and divorce.

Sometimes 2 weeks of lost income because of an illness or job change can result in bankruptcy. An emergency fund allows you to cover these expense and keep your finances in order. This can also give you peace of mind. As you saw in Module 2, it costs a lot more to cover an expense with credit than to pay for it up front.



Slide 8: Talk about why the one goal is bad and the other is good. Talk about what they could do to meet the second goal.

Have the class write down some of their short- and long-term financial goals. Then discuss and share those goals.

Tell them that we are going to learn more about savings and then they can create a plan to meet their goals.

Slide 9: They do not need to prioritize the goals yet. This exercise is to get them to list them. Include how much is needed (if possible) and also when you want it by.

My Savings Goals

Examples

Short-Term Goals	Long-Term Goals
Buy a new car (2 years)	Child's college education fund (18 years)
Pay off my credit cards (1 year)	Retirement plan (30 years)
Replace furnace (1 year)	Support aging parents (10 years)
Go on a family vacation (3 years)	Long-term health care expenses (20 years)
Set up a 9-month emergency fund (2 years)	

Slide 10: Your students may not have correct amounts right now. To refine these goals they would need to start figuring out how much they would need.

For example, I need $12,000 to buy a car in 2 years. I need $1,000 for a furnace in 1 year.

How they find specific amounts depends on what the item is. For retirement there are many calculators and articles out there. In general it amounts to 10-20 years of income. Education depends on where the child is going to school, for how long, and how much you want to cover.

You might want to discuss their goals and how they can figure out how much they will need.

Risk and Rates Over Time

- The interest that you earn on savings or investments is called rate of return.
- The rate of return on an investment or savings will affect how much you have to save to reach a goal or how much you will have in the end.
  - Higher rates mean more interest earned.
- Given a longer time period to save, the effect of an interest rate difference will be greater.
- If you save $50 per month for 10 years, how much will you have at the end?
  - If you earn 4% rate of return, you will have $7,362.
  - If you earn 10% rate of return, you will have $10,242.

Slide 11: As the time you have to save gets longer the difference in the interest rate becomes bigger. Many retirement calculators will give you vastly different results on how much you need in savings when you retire. This is because they use projections from around 5% interest to 10% interest.

Risk and Rate of Return

- Higher rates of return normally come with higher risk.
  - Risk is the variability in the actual rate you receive.

	Annual Returns on Investments in		
Arithmetic Average	S&P 500	3-month T. Bill	10-year T. Bond
1928-2014	11.53%	3.53%	5.28%
1965-2014	11.23%	5.04%	7.11%
2005-2014	9.37%	1.44%	5.31%

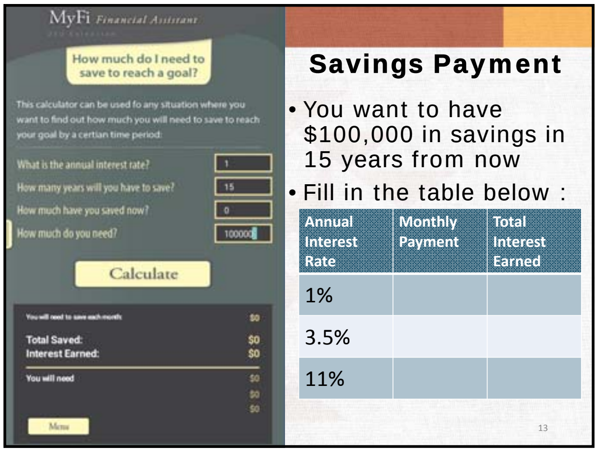
Source: http://www.stern.nyu.edu/~adamodar/New_Home_Page/data.html

- The stock market has the highest average returns but also more risk.
- Sometimes you may even lose money in the stock market.

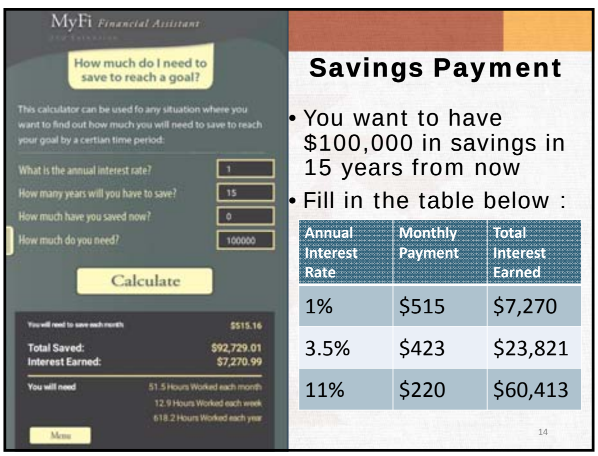
Slide 12: Indexed funds are a type of mutual fund with a portfolio of stocks constructed to match or track the components of a market index (S&P 500). In general these funds are thought to provide broad market exposure and low operating expenses. However there is still risk. The risk is less over a long period of time, than if you have a short period of time to invest.

Investing in individual stocks would come with more risk.

Certificates of Deposit would normally have slightly higher returns than bank savings accounts, but both are very low.

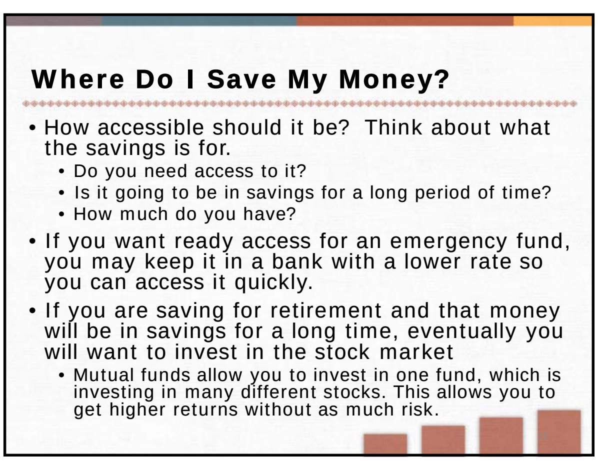


Slide 13: Use the "Savings Payment" in MyFi App. This app was introduced in Module 2. It is available on Google Play and in the Apple Store. Information on the App can be found at DiverseAg.org/Money.



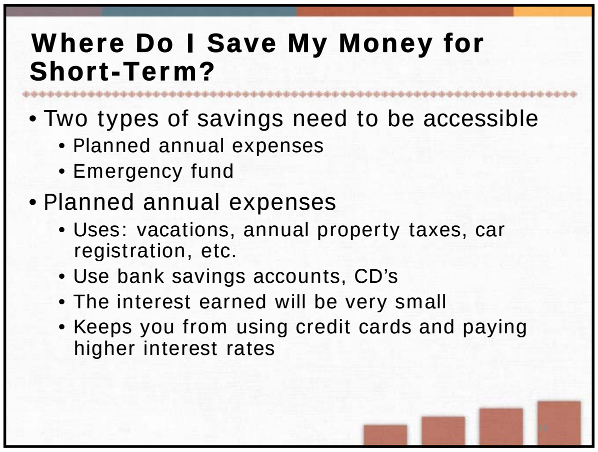
Slide 14: With a smaller rate of interest, you have to save a lot more. You can see that with 1% interest, you only earn just over $7,000 in interest. With 11% interest you will earn over $60,000. With more interest earned you have to save fewer dollars to meet your goals.

The reality is that you may do a combination of things. You may have to save in a bank savings account until you get enough to invest in an index fund. For some the minimum is $500, $1,000 or $5,000.

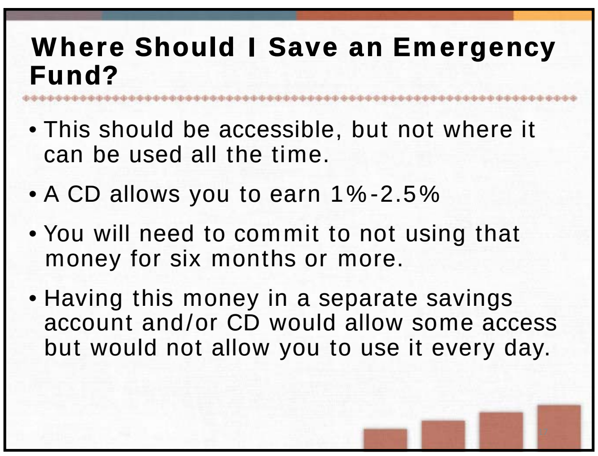


Slide 15: Where you save your money is not just about where you will get the highest rate, but how much access you need, what risk you want to face.

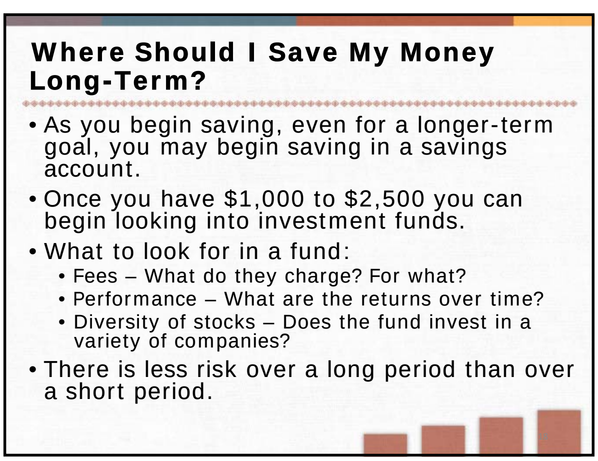
You may want to keep an emergency fund in a bank savings account. Your interest rate will be very low, but you will have access to it.



Slide 16: CDs are certificates of deposit



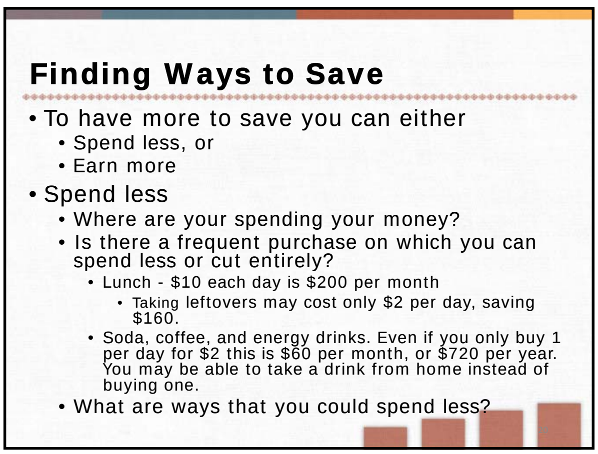
Slide 17: Remember an emergency fund should be for emergencies. This should not be used for seasonal variations in income, or expenses. Those should be covered with planned annual expenses.



Slide 18: With a long time to save, you may want to save in a mutual fund (include an index fund). You may also invest it using an Individual Retirement Account (IRA). This will affect what income tax you would pay before putting it into a retirement account and what tax you pay getting it out. If you withdraw from you Individual Retirement Account before 62, you will need to pay tax penalties. A Roth IRA is where you use money that you have already paid income tax on, but when you withdraw after retirement, you do not pay any taxes on the money you take out. A traditional IRA is where you use money from your income before you pay income tax on it, but you must pay taxes on the money you take out after retirement. You can also have a combination. If there is a lot of interest in this, this could be the focus of a guest speaker in module 8. If you want to get a guest speaker, try to find one that is not an insurance salesman or trying to sell another product.

Sometimes employers offer retirement plans where when you invest in your retirement plan they will match it. This is a good deal because your investment will go further.

Slide 19: Examine where they are at with their budgeting and record keeping exercises. We will need that information to start looking for ways to save.

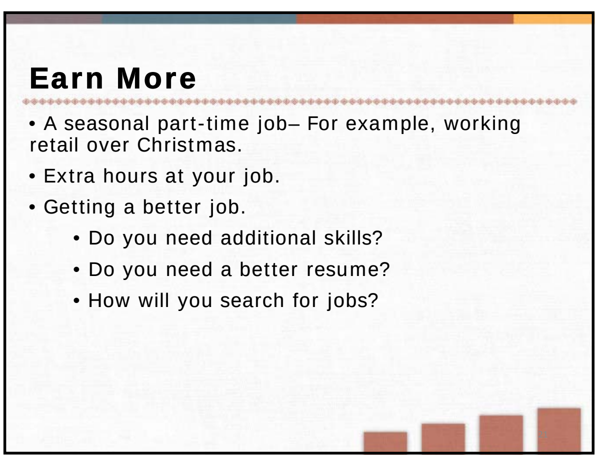


Slide 20: They can examine what they need to save to meet their goals. Then look here for ways to save that amount. If they cannot find enough ways to save what they need, they can also consider earning more (on the next slide).

Often the answer come out to be a lot of small changes adding up to a larger number in savings. For example, in the above 2 items, you would save $2,640 per year. Other items to consider would be cigarettes, eating out instead of cooking at home, etc.

This questions could be asked from a business or personal setting. For a business, a higher amount on an operating loan, may allow you to spend more and increase your break even.

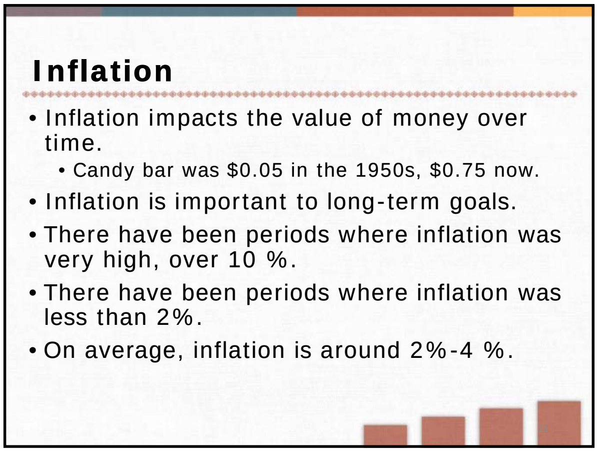
For a business look at what your biggest expenses are, then determine if there are ways to cut them. For example, feed is normally one of the largest expenses in a cattle operation. Think about ways to cut feed. (this will be explored in more depth in the Business Management modules, but may come up in discussion here.)



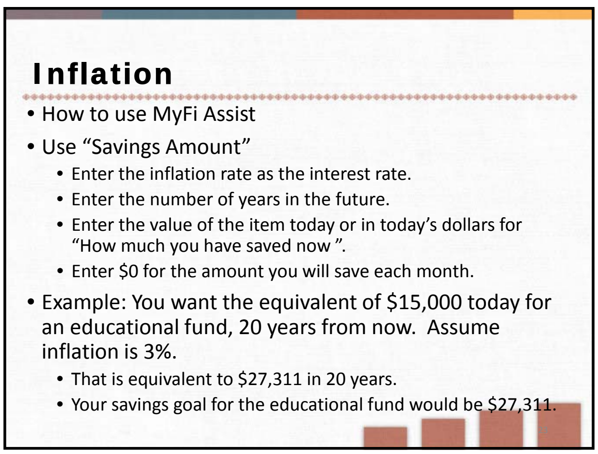
Slide 21: When you cannot find ways to save enough to meet your goals, you can also consider ways to earn more.

This may be a topic that they would like more information on. Many State's Departments of Workforce Services or other places have programs that include career counseling and job preparation. It might be useful in Module 8 to have a guest speaker talk about programs and options.

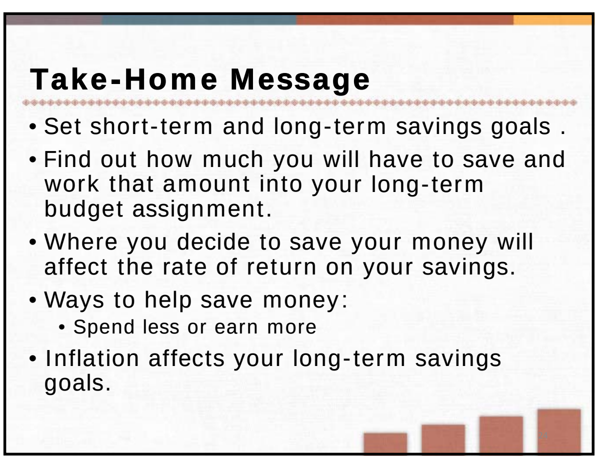
There might also be educational programs that could be covered.



Slide 22: This is important to consider when you look at a long term goal. For example, if you want the equivalent of $10,000 today when you retire in 30 years the dollars needed will be higher. How much higher depends on the expected inflation rate. This is something that is good to recognize and think about.



Slide 23: We just did the average for inflation of 3% above. However, you might have the students look at lower and higher rates of inflation and how it would affect the amount needed.



Slide 24: This module introduced savings, goals, and finding ways to save money to allow for saving for goals. This is a topic that will be built on in the next modules as we work towards developing a personal financial plan.

Module 6 will cover Building a Better Cash Flow Statement. This will include looking at trade-offs, wants vs. needs, spending less or earning more.

Module 7 will bring it all together to develop their personal financial plan including, assessing their current situation, financial areas they need to work one, goals they want to work towards, and how to monitor their plan and progress.

Thank you!

Financial goals require money and effort invested over a long period. In order to bring your goals to reality you need to have a working plan.

A good goal is obtainable, realistic, and measurable. Write down ALL of your goals and be specific.

Goals:

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Sort and prioritize your goals into short-term and long-term goals, ask yourself, “How important is each goal?”

Short-Term Goals (1-4 years)	Long-Term Goals (5+ years)
1.	**1.**
2.	**2.**
3.	**3.**
4.	**4.**
5.	**5.**
6.	**6.**
7.	**7.**

Ask yourself these questions for each goal:

How big is the goal? For example, “I want to buy a car.” What kind of car? New, used, luxury, compact? Consider all of your options.
How much money will I need to save? For example, “I want a $20,000 down payment for a house.”

When do I want to achieve this goal? Be realistic; if you have $10,000 of debt, it may take you more than 1 year to pay it off.

You can use the MyFi Assist app to figure out how much money you will need to save each month for each goal. You will most likely not be able to work on every goal at once. Pick goals that are most important to you and put them into your budget.

Keep your goals in a place where you can see them daily. Determination and discipline will help you achieve your financial goals.