

Student Take Home Guide

Money Smart

Pay Yourself First



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Money Smart

The *Money Smart* curriculum is brought to you by the National Association of Federal Credit Unions. Money Smart is adapted from a curriculum developed by the Federal Deposit Insurance Corporation (FDIC). This *Money Smart* program includes the following courses:

- **Credit Unions: Here To Serve You**
an introduction to financial services

- **Borrowing Basics**
an introduction to credit

- **Pay Yourself First**
why you should save, save, save

Pay Yourself First

Welcome to Pay Yourself First! Saving money is an important part of building your financial future. This course will give you some tips to help you get started. It will also show you how your money can grow when you save.

Paying yourself first means that when you get a paycheck, you first put away the money you want to save for your goals. There are many reasons to pay yourself first. Some of the benefits of paying yourself first include:

- You can learn to manage your money better.
- You can increase your savings.
- You can improve your standard of living.

Pay Yourself First Worksheet

My savings goals:

I can use these tips to save for my goals:

Pay Yourself First Plan

What will I do now to save for my goals?

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

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

Decision Factors

How much do you want to accumulate?

How long can you leave your money invested?

How do you feel about risking your money?

Savings Tips

1. Consider needs vs. 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 can sign up to have money moved into your savings account every month. What you don't see you don't miss!
 - U.S. savings bonds can be purchased through payroll deduction.
3. Pay your bills on time. This saves the added expense of:
 - Late fees
 - Extra finance charges
 - Disconnection fees for phone, electricity, or other services
 - 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 - \$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 credit union or other financial institution.
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.
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 into your credit union or 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 2-6 months of expenses in case of emergency. Make sure you have an emergency savings account before considering investing.
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, you might want to consider an investment club. The National Association of Investment Clubs (NAIC) is the corporation that supports this investment style. 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-\$10).

Compound Dividends Exercise

At a bank, you are paid interest on your savings account. At a credit union, a savings account earns dividends, because a member is an owner of the credit union.

Compound Dividends Exercise

Annual Compounding	Daily Compounding
\$1,000 @5% compounded annually \$1,000 at the end of the first day.	\$1,000 @5% compounded daily \$1,000.14 at the end of the first day. On the second day add the dividends earned and compound the total amount \$1,000.14 @ 5% daily
\$1,050.00 (End of Year 1)	\$1,051.27 (End of Year 1)

With annual compounding, at the end of the first year you would have \$1,050. With daily compounding, at the end of the first day you would have earned \$0.14. The next day, dividends are calculated on the entire amount of your original deposit of \$1,000 PLUS the previously earned interest of \$0.14. This table shows that the more frequently dividends compound, the faster they grow.

Compound Dividends

This chart further demonstrates the power of compound dividends!

	5 years	10 years
No Dividend	\$1,000	\$1,000
Annual Compounding at 5%	\$1,276	\$1,629
Monthly Compounding at 5%	\$1,283	\$1,647
Daily Compounding at 5%	\$1,284	\$1,649

Saving \$1 And \$5 A Day

Saving \$1 a day

	No Dividend	5% 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 Dividend	5% 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

Special Accounts: Frequently Asked Questions

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.

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 include:

- Job training
- College education
- Small business start-up
- Downpayment 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 these 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.

- Most programs require that the participants take a certain number of financial education courses. Community group teachers or volunteer bankers might teach these classes.
- Depending on what you decide to save for, you might be required to take additional classes. For example, if you are saving for a downpayment on a house, you will usually have to take homeownership classes.
- If you are saving money to start a business, you will usually take classes to help you understand business concepts and develop a business plan.
- If you are in an IDA program, you must deposit some money into a special savings account at a participating bank. You will need to make a deposit at least once a month for the entire length of the program. A program might last 12-36 months.
- Your reward for saving is the education you receive throughout the program and the money that gets added into your account at the end of the program. When you have completed the program, the organization will help you with the next steps.

How can I open an IDA?

The concept of IDAs is still fairly new, although it is becoming more popular. If you are interested you can:

- Check the following website to search for programs by state:
www.idanetwork.org/index.php?section=state&page=state_pages.html
- Ask local community action agencies, other community groups, and bankers if they know of any programs in the area.

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 credit unions, banks, and thrifts. .

Who is qualified to open an ETA?

All federal payment recipients who receive any of the following can take advantage of an ETA:

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

How does an ETA work?

The ETA is a voluntary program for both the consumer and the financial institution. Credit unions, banks, and thrifts 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 and grocery stores
- Monthly statements
- The same consumer protections as other account holders

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

How can I open an ETA?

Look for participating financial institutions in your area. Access the Internet and check the following website: www.eta-find.gov to find financial institutions in your area. Participating credit unions and banks cannot refuse to open an account regardless of your credit history unless you have previously held an ETA that was closed because of fraud.

What is a Section 529 Plan?

A Section 529 Plan is a prepaid savings program for higher education. Any person can set up a plan for a child pursuing higher education. The money grows tax-deferred and is taxed at the child's rate when withdrawn for education purposes. The donor may have state income tax breaks. The savings can be applied to any college in any state. Many plans can be started with only \$25 a month. More information about state tuition programs can be found at: www.irs.gov.

Glossary

Annual Percentage Yield (APY)

APY is the amount of dividends at a credit union (or interest at a bank) you will earn on a yearly basis expressed as a percentage. The APY includes the effect of compounding. When comparing different accounts, you should compare the APYs of the savings products, not the interest rates. The higher the APY, the higher the dividend you will receive.

Bonds

When you purchase a bond, you are essentially loaning money to a corporation or to the government for a certain period of time, called a term. The bond certificate promises the corporation or government will repay you on a specific date with a fixed rate of interest.

Certificate of Deposit (CDs)

CDs are bank accounts where you leave your money for a set period of time, such as six months, one, two, or five years, called a term. You usually earn a higher rate of interest than in a regular savings account. The longer you promise to keep your money in a CD, the higher the interest rate. Be sure to think about your cash needs before opening a CD because you will pay a penalty if you withdraw your money early.

Club Account

A club account is a type of savings account you “join” to save money for a special reason, such as holidays or family vacations. Club accounts usually require you to make regular deposits.

Diversification

Diversification means you spread the risk of loss in a variety of savings and investment options. It is the concept of “don’t put all your eggs in one basket.”

Dividends

As distinguished from interest on a bank account, this is the money a credit union returns to its members on their investment in the credit union. Because credit union members are owners of their credit unions, member share accounts are considered investments in the credit union. Therefore, members receive dividends on their accounts. In practice, dividends on credit union accounts and interest on bank accounts function in a similar way.

401(k) and 403(b) Retirement Plans

401(k) plans are retirement plans that some private corporations offer their employees. A 403(b) plan is similar to a 401(k), but is offered to employees of some nonprofit organizations.

In both types of plans, you choose to deduct part of your paycheck and place it into the investment strategy you design. The plans allow you to choose different types of investments, depending on how much risk you want to take. The money you place into the account lowers your taxable income. The employer usually matches a portion of your contribution, sometimes up to 50 percent. The funds grow tax-free until the money is withdrawn during retirement.

Equity

When referring to a home, equity is the difference between how much the house is worth and how much you owe on the house.

Investment

A savings option purchased for future income or financial benefit. An account at a credit union is considered an investment, because credit union members are all owners of the credit union. Accounts represent shares in the credit union, and members receive dividends on their shares. However, unlike most investments, an account at a credit union is insured by the federal government.

Individual Retirement Account (IRA)

An IRA is a retirement account that lets you save and invest money tax-free until you withdraw it when you retire. You can contribute up to \$2,000 a year. There are different types of IRAs including traditional and Roth IRAs.

Liquidity

Liquidity refers to the ease with which an asset (a thing of value) can be turned into cash without losing its value. For example, cash is the most liquid; a certificate of deposit (CD) may be liquidated, but you pay an early withdrawal penalty; a house might be your least liquid asset because it takes time to sell.

Money Market Accounts

A money market account is one that usually pays a higher rate of interest than a regular savings account. There are no penalties for withdrawals and you can write a limited number of checks on the account.

Mutual Funds

A mutual fund is a professionally managed collection of money from a group of investors. A mutual fund manager invests your money in some combination of various stocks, bonds, and other products. The fund manager determines the best time to buy and sell the products in the fund. By combining your resources with other investors in a mutual fund, you can diversify even a small investment, which should reduce risk.

Passbook Savings Accounts

Passbook savings are similar to statement savings accounts. The difference is the record keeping. Instead of receiving a quarterly statement, all transactions are recorded in a passbook. You have to take your passbook to the bank when making transactions. The teller will update your account information when you go to the bank.

Risk versus Return

This means that the more risk you take in your investment, the higher the expected return on that investment. However, there is also a higher risk that you might lose the entire amount you invested.

Share Certificate

Share certificates are credit union accounts where you leave your money for a set period of time, such as six months, one, two, or five years, called a term. You usually earn a higher dividend rate than in a regular savings account. The longer you promise to keep your money in a share certificate, the higher the dividend rate. Be sure to think about your cash needs before opening a share certificate because you will pay a penalty if you withdraw your money early.

Statement Savings Account

A statement savings account is an account that earns dividends at a credit union or interest at a bank. If you have a statement savings account, you will usually receive a quarterly statement that lists all of your transactions (withdrawals, deposits, fees, and dividends or interest earned).

Stocks

When you buy stocks (shares), you become part owner of the company. If the company does well, you might receive periodic dividends. Dividends are part of a company's profits it gives back to you when you own stock in the company. If the company does poorly, you might lose your money.

U.S. Savings Bonds

Savings bonds are one type of Treasury securities. They are long-term investment options backed by the full faith and credit of the U.S. government. Purchasing these bonds is an easy way to save small amounts of money and are often purchased for a child's education; however, they may be used for any purpose.

U.S. Treasury Securities

U.S. Treasury securities are debt instruments. When you purchase a Treasury security, you are loaning money to the government. Treasury securities are backed by the full faith and credit of the U.S. government, which means the government guarantees interest and principal payments will be paid on time. Treasury securities include:

- Savings bonds, which can earn interest for up to 30 years, but can be cashed after 6 months.
- Treasury bills, which mature in one year or less from their issue date.
- Treasury notes, which mature in more than a year, but not more than 10 years from the issue date.
- Treasury bonds, which mature in more than 10 years from the issue date.

Treasury bills, notes, and bonds are transferable, which means you can buy or sell them in the securities market. You can buy Treasury bills, notes, and bonds for a minimum of \$1,000.

For Further Information

www.ncua.gov

The National Credit Union Administration regulates and provides information on the country's federally insured credit unions

www.fdic.gov

The FDIC provides information about the nation's banking system, including deposit insurance coverage. You can call the following toll free number with consumer questions: 1-877-ASK-FDIC (1-877-275-3342).

www.dallasfed.org

Building Wealth: A Beginner's Guide to Securing Your Financial Future.

gwbweb.wustl.edu/users/csd.html

The center for Social Development is part of the George Warren Brown School of Social Work, Washington University, St. Louis. The CSD website includes useful information regarding IDAs.

www.sec.gov/oiea1.htm

The U.S. Securities and Exchange Commission's Office of Investor Education and Assistance provides information about investing. You can call 1-800-SEC-0330.

www.firstgov.gov

workers.org

www.consumer.gov

These websites provide access to all online U.S. Federal Government resources.

www.pueblo.gsa.gov

The Federal Citizen Information Center (FCIC) provides lots of free online consumer information to help the public. The FCIC produces the Consumer Action Handbook, which is designed to help citizens find the best and most direct source for assistance with their consumer problems and questions. You can call 1-800-688-9889.

www.better-investing.org

The National Association of Investors Corporation (NAIC) provides investment information for individuals and clubs. You can call 1-877-ASK-NAIC, (1-877-275-6242).

www.irs.gov

This site includes information about college savings plans.

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- Government of the District of Columbia, Department of Employment Services
- Government of the District of Columbia, Department of Banking and Financial Institutions

Reference materials from the following sources were especially helpful in the development of the *Money Smart* program:

- *Consumer Action Handbook*, 2001, Federal Consumer Information Center, United States General Services Administration
- Fannie Mae
- Federal Trade Commission
- *Gateway to a Better Life – Making Every Dollar Count*, 1998, Cooperative Extension, University of California
- *Helping People in Your Community Understand Basic Financial Services*, Financial Services Education Coalition
- Internal Revenue Service
- *Saving Fitness A Guide to Your Money and Your Financial Future*, U.S. Department of Labor Pension, and Welfare Benefits Administration
- Social Security Administration
- United States Department of Agriculture, Rural Development, Rural Housing Service
- United States Department of Housing and Urban Development
- United States Veterans Administration, Department of Veterans Affairs Home Loan Program

Course Evaluation – Pay Yourself First

Instructor: _____ Date: _____

Thank you for your participation in this course. Your responses will help us improve the training for future participants. Please circle the number that shows how much you agree with each statement. Then answer the questions at the bottom of this form. If you have any questions, please feel free to ask your instructor.

	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The course was interesting and kept my attention.	1	2	3	4
2. The examples in the course were clear and helpful.	1	2	3	4
3. The activities in the course helped me understand the information.	1	2	3	4
4. The slides were clear and easy to follow.	1	2	3	4
5. The take-home materials were easy to read and useful to me.	1	2	3	4
6. The instructor presented the information clearly and understandably.	1	2	3	4
7. The information/skill taught in the course is useful to me.	1	2	3	4
8. I am confident that I can use the information/skill on my own.	1	2	3	4
9. I am satisfied with what I learned from this course.	1	2	3	4

What was the most helpful part of this course?

What was the least helpful part of this course?

Would you recommend this course to others?

Any comments/suggestions?

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 class. Read each statement below. Please circle the number that shows how much you agree with each statement.

<i>I know:</i>	Before-the-Course				After-the-Course			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. Ways to save money.	1	2	3	4	1	2	3	4
2. How money can grow when you save.	1	2	3	4	1	2	3	4
3. The difference between types of savings and investment accounts.	1	2	3	4	1	2	3	4