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Welcome to

Taking Charge of Your Finances

Session 2: The Power of Saving

Presented by



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Taking Charge of Your Finances

Session 2:
The Power of Saving



Presented by Spencer Rieck, Training Coordinator for SunWest Federal Credit Union

"The most powerful force in the universe is compound interest."

--Albert Einstein



Taking Charge of Your Finances



Objectives

- Understand the time value of money
- Learn how different savings products work.

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Compound Interest

Think of interest as the financial institution paying rent for using your money. Compound interest is interest on the interest.

Usually, interest is calculated daily and paid monthly. This means more interest is paid to you over time.



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A powerful solution to saving

For example: let's say you put \$1000 into a savings account making 3%. If the rate never changes and you leave the money there for 5 years, the balance would grow to \$1162.00. That is a gain of \$162.00 for not using your money. However, if you deposited an additional \$1000 into that savings account every year, the account balance would grow to \$5476.00 That is an increase of \$476.00!



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Set Aside Money

To start, you must save money to make money. See what expenses can be cut back to help you start saving. This additional money can then be 'put to work' for you!



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Possible Expenses to 'Cut'

Here are some possible ways to reduce expenses in order to supply your savings.

- Don't eat out as much
- Cancel the gym membership
- Change phone plans
- Spend less on a hobby
- Skip the morning coffee shop



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Give your Money a Job

There are several ways you can put your money to work. Options range from high risk, like stocks, to moderate risk, such as bonds, or no risk like a savings account. We will focus on the low risk products.

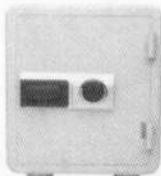


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Risk-Free Products (Safe)

- Savings Account
- Money Market
- Certificate of Deposit (CD's)
- IRA (Individual Retirement Arrangement)
- Interest-Bearing Checking Account



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Risk-Free Products (Safe)

Everyone's situation is different. It is important to find out which products best suit your needs and preferences. For example, a certain product may not offer the best rate, but it could allow you more flexibility with your money.



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Savings Account

A savings account is the simplest product available to grow your money. Funds are deposited into an account and earn interest at a variable rate.

Expect the rate to be relatively low, regardless of your balance. Credit unions usually offer a higher rate than banks.



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Savings Account

Funds can be added to a savings account at anytime.

There may be a limit on how many withdrawals can be made each month. Exceeding the allowable number of withdrawals may result in a fee or the transaction being blocked.



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Money Market

A money market is sort of like a savings account with a much higher rate. The rate is tiered based on the account balance.

For example: balances over \$1000 might earn 2% APY and balances over \$10,000 might earn 3% APY.

Balances under the minimum tier may not earn interest and/or may be assessed a fee.



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Money Market

Money Market rates are **variable**.

Funds can be added to a money market at anytime.

There may be a limit on how many withdrawals can be made each month. Exceeding the allowable number of withdrawals may result in a fee or the transaction being blocked.



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Certificate of Deposit

With a certificate of deposit (CD) you can lock in a fixed interest rate for a certain period of time. CD's offer a higher rate than a money market or savings account which make them a popular choice for saving.

Rates are based on the balance and term- typically longer terms with higher balances will get the best rate. Terms typically range from 3 to 60 months.



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Certificate of Deposit

Since a CD is 'locked,' you cannot add funds to it after it has been opened. In addition, consumers are encouraged not to withdraw funds from a CD until the term expires or 'matures.'

Early withdrawals from a CD will be assessed hefty penalties. Sometimes a CD penalty will 'dip' into the principal amount.



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IRA

An IRA is a great way to build your savings for retirement. The IRS provides a variety of tax benefits for those who contribute to an IRA.

One of the biggest benefits of an IRA is not paying taxes on the interest you make or to defer it until a later date. If you are in a lower tax bracket by the time you retire, you may pay less taxes (Traditional IRA).



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IRA

Unfortunately, there are a lot of rules surrounding IRA's. This makes it hard for some people to understand them and therefore they won't utilize IRA's as a way to save for retirement.

Consult a tax advisor or your financial institution to learn more about an IRA.



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Interest-Bearing Checking Account

Many financial institutions offer a checking account that earns interest. Typically these types of accounts offer a low rate and require a minimum balance. However, the institution may offer free personal checks, cashier's checks, and money orders. There will be no limitations on how many withdrawals you make.



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Interest-Bearing Checking Account

More recently, some financial institutions have been offering a very high rate for these types of checking accounts. However, there will be several requirements that need to be met (i.e. setup for direct deposit, use your debit card as credit 10+ times a month).



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Which one do I choose?

As stated earlier, products will depend on your preference and situation. If you have money that you don't need access to, you might want to open a CD. If you want access to your money at anytime without a penalty, open a money market or savings account.

As you save more money, put it into several different accounts. Many professionals advise not to "keep all your eggs in one basket."



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Conclusion

Remember that saving money takes a lot of time and effort. Take one step at a time.

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Thank You!

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