



CHAPTER 2

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“Discipline yourself to do the things you need to do when you need to do them, and the day will come when you will be able to do the things you want to do when you want to do them.”

ZIG ZIGLAR
Best-selling author and motivational speaker

\$

The most important lessons teens want to know when learning how to manage money are learning to save (35%) and understanding how to budget (28%).

ING Direct USA Survey

+

THE FIVE FOUNDATIONS

are the beginner steps for establishing and maintaining financial peace. These steps will serve as your compass or framework for your financial success. You will find the Five Foundations explained in detail throughout this course. These are basic steps that anyone can and should do in order to win with money. So start now. We want to see you WIN!

Section 1:

Saving: An Exercise of Character

VIDEO 1.1

The Five Foundations

1 THE FIRST FOUNDATION
Save a \$500 Emergency Fund

2 THE SECOND FOUNDATION
Get Out of Debt

3 THE THIRD FOUNDATION
Pay Cash for Your Car

4 THE FOURTH FOUNDATION
Pay Cash for College

5 THE FIFTH FOUNDATION
Build Wealth and Give

The First Foundation

» The First Foundation is \$ 500 in an emergency fund. You should do this as quickly as possible.

» When you're in high school, you won't have the same emergency expenses as your parents (like needing to put a new roof on the house). For you, a surprise expense might be fixing a flat tire or replacing a broken cell phone.

» An emergency fund allows you to have money available for any surprise expenses.

» If you don't have money saved to pay for these things, then Debt will start looking like an easy answer.

» Debt Never solves problems. At best, it just delays one problem while creating another one!

» When you're older and out of school, you'll need to grow your emergency fund into a full three to 6 months' worth of expenses.

» Make sure this money is kept in the bank and that you ONLY use it for emergencies. You can't keep the money handy, because it will get spent.

» Keep your emergency fund in a separate savings account away from your spending money.

TIPS FROM TEENS ON SAVING

Bailey, 15: "I have a little gift box that I put spare change and bills into when I earn baby-sitting money. Whenever I have a significant amount in there, I'll invest it or put it in the bank. It's important to keep a routine. Every time I get money, I put some of it away."

Adam, 16: "I recently got a part-time job where my paychecks are automatically deposited into my checking account. I set up an automatic transfer of \$25 from my checking to my savings account each week. Since it's all done automatically, I never actually see the money. It is just left to pile up in my savings account. I've already saved several hundred dollars without doing anything!"

WHAT ABOUT YOU?

Think of a way you have saved money or could save money. Write it down and then share it with your class.

Section 2:

Three Basic Reasons to Save Money

The **First Foundation** is simple. **Save a \$500 emergency fund.** Keep in mind that \$500 won't always be enough for your emergency fund. As you get older and you have more financial responsibilities like paying a mortgage and supporting a family, you will want to have three to six months of living expenses set aside in your emergency fund. How much money is that?

Well, that will depend on what your monthly bills total at any given time. For instance, if your living expenses (mortgage, utilities, insurance, food, etc.) total \$3,000 a month, then you'll want to set aside \$9,000 to \$18,000 in an emergency fund. That sounds like a lot. But rest assured, if you are managing your money wisely, as your income grows so will your savings.

VIDEO 2.1

Save Money for Three Basic Reasons:

1. Emergency Fund
2. Purchases
3. Wealth Building

Emergency Fund.

- » Emergencies are going to happen. Count on it. The First Foundation, a beginner emergency fund, is \$500.

* **NOTE:** Later in life this should increase to three to six months of living expenses.

- » It's a good idea to open a separate savings account for your emergency fund. Then, leave it alone!
- » Your emergency fund is not an investment. It is insurance for when unexpected things happen.
- » The emergency fund is your first savings priority. Do it quickly!

“Save a part of your income and begin now, for the man with a surplus controls circumstances and the man without a surplus is controlled by circumstances.”

HENRY BUCKLEY
Australian politician

So now you know about the savings crisis in America. You might be thinking, Yeah, I'd like to start saving, but I'm barely making any money. And sometimes, doing something fun seems more important than saving just a few bucks. Besides, if I can only save \$20 or \$50 a month, is it really worth it?

The Answer: Absolutely. By starting now, you're giving your money time to grow. And when you start young, you'll end up with more cash than someone who waits.

Wealth Building

» The third thing you save money for is Wealth building.

» Discipline is the key ingredient when it comes to wealth building.

» Building wealth is a marathon, not a sprint.

“It was character that got us out of bed, commitment that moved us into action, and discipline that enabled us to follow through.”

ZIG ZIGLAR
American author and
motivational speaker

JOURNAL QUESTION: VIDEO 2.2

Why do you think so many people borrow money for large purchases instead of using a sinking fund?

Ready to Start Saving? Read These Bank Tips First!

* **REMEMBER:** The emergency fund is not intended to grow wealth, so interest earned is not a factor.

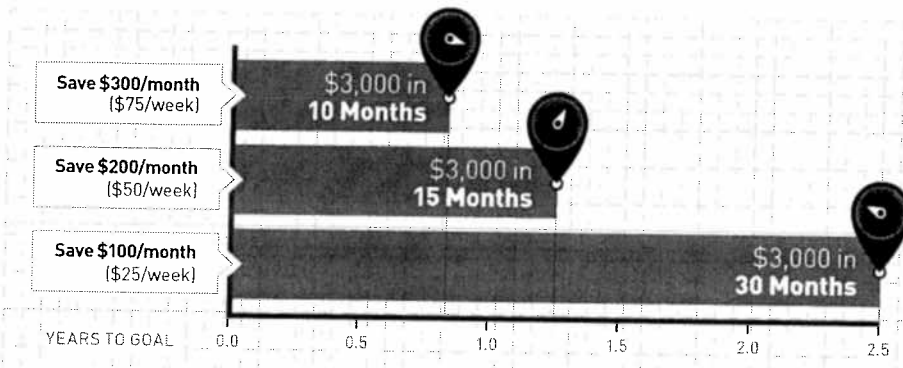
- » **A bank is one of the safest places to keep your money.** Since the financial crisis of 2008, the federal government (Federal Deposit Insurance Corporation or FDIC) increased the level of insurance on bank accounts to \$250,000 per depositor.
 - interest-bearing accounts than other financial institutions that offer accounts that resemble bank services: The most common are brokerage cash management accounts, credit union accounts, and mutual fund money market accounts.
- » **An interest-bearing account** is an account that generates interest income on the available balance in the account.
- » **Inflation can eat up the interest you earn on an interest-bearing bank account.** Even a low rate of inflation (a persistent rise in the cost of goods and services or the decline in the purchase power of money) generally outpaces what banks pay on interest-bearing accounts.
- » **The convenience of a bank account comes at a cost.** Banks generally pay lower rates on

Maybe You *Can* Afford That Car!

"I'm 14 and want to buy a car in a couple of years. How much money will it take to get a good one?"

DAVE'S ANSWER: You can buy a good used car for around \$3,000. This may seem like a lot right now, but let me show you how easy it can be. Let's say you work part time after school and on weekends. If you make \$100 a week and save it all, you'll have

enough for a car in only eight months. Pretty cool, huh? Can't do \$100 a week? Saving a little bit at a time adds up, and you will eventually reach your goal. Take a look at the graph below for a few ways it can be done.



VIDEO 2.3

Wealth Building *(Continued)*

» Compound Interest is a mathematical explosion. You must start Now.

* **TURN THE PAGE:** Follow along with the Ben and Arthur compound interest chart to see the power of compound interest!

JOURNAL QUESTION: VIDEO 2.3

How is saving an exercise of your character?



IMPORTANT: Since you're in high school, hold off on investing for retirement until you have college completely paid for. It doesn't make sense to invest while, at the same time, taking out loans for college. We want you to live debt free, even through college. Make paying for your education a priority over investing. Once you've done that, invest as soon as possible.

Chapter Summary



Check for Understanding

Now it's time to check your learning! Go back to the *Before You Begin* section for this chapter. Place a checkmark next to the learning outcomes you've mastered and complete the "after" column of the *Measure Your Progress* section.



Build On What You've Learned

Review: The Three Reasons to Save

Fill in the graphic organizer. What are the three things you need to save for? Describe why each is important for your financial future. Take a look at section 2 if you need help.

3 Reasons to Save

1	2	3
<p>SAVE FOR: Emergency Fund</p> <p>IMPORTANT BECAUSE: Emergency fund - have funds for surprise expenses</p>	<p>SAVE FOR: Large Purchases</p> <p>IMPORTANT BECAUSE: pay cash by using sinking fund approach</p>	<p>SAVE FOR: Wealth Building</p> <p>IMPORTANT BECAUSE: Investing allows money to work for you</p>

Money in Review

Matching

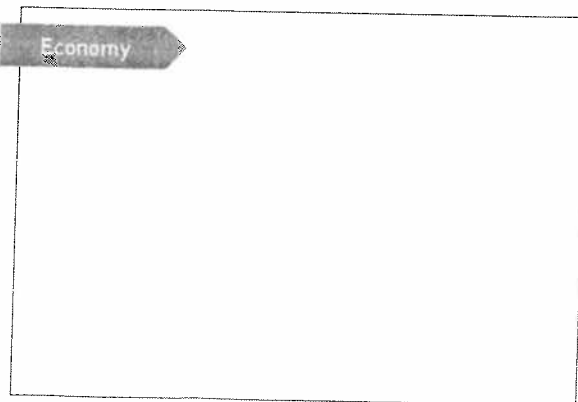
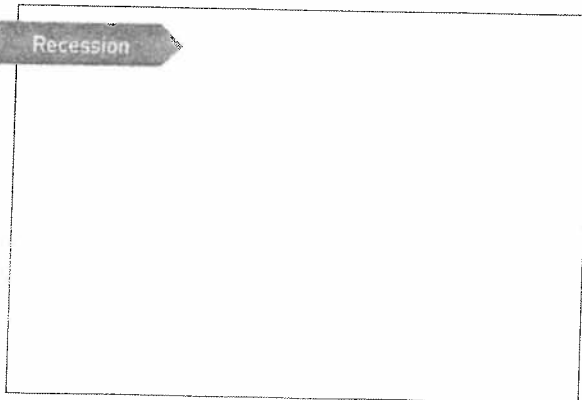
Match the following terms to the correct definition below.

<input type="radio"/> The Five Foundations	<input type="radio"/> Compound Interest	<input type="radio"/> Interest-Bearing Account
<input type="radio"/> Interest Rate	<input type="radio"/> Emergency Fund	
<input type="radio"/> Sinking Fund	<input type="radio"/> Inflation	

- | | |
|--|--|
| <p>1. <u>G</u> An account that generates interest income on the available balance in the account</p> <p>2. <u>A</u> The five steps to financial success</p> <p>3. <u>E</u> A savings account that is set aside to be used only for emergency expenses</p> <p>4. <u>D</u> Interest paid on interest previously earned</p> | <p>5. <u>C</u> Saving money over time for a large purchase</p> <p>6. <u>B</u> A rate which is either charged (on debt) or paid (on investment accounts) for the use of money</p> <p>7. <u>F</u> The persistent increase in the cost of goods and services or the persistent decline in the purchasing power of money</p> |
|--|--|

Illustration

Draw a picture representation of each of the following terms.



Multiple Choice

Circle the correct answer.

8. When it comes to saving money, the amount you save is determined by how much you have left at the end of the month once all of your spending is done.

B
 True
 False

9. Your income level greatly affects your saving habits.

B
 True
 False

10. At your age, a fully funded emergency fund should be:

D
 \$1,000
 \$5,000
 \$100
 \$500

11. Which of the following is not one of the three basic reasons for saving money?

B
 Large purchases
 Have money available to lend to friends
 Emergency fund
 Build wealth

12. Instead of borrowing money for large purchases, you should set money aside in a _____ over time and pay with cash.

A
 Sinking fund
 Emergency fund
 Credit card fund
 Mortgage fund

Short Answer

Respond in the space provided.

13. What is the First Foundation? Explain how and why the dollar amount will change as you get older.

Save \$500 -

Emergency Fund -
Emergencies will be more expensive

14. Looking back at the "Ben and Arthur" story, how did Ben come out ahead even though he invested less money than Arthur?

Ben invested earlier -
Money has more time to compound

15. What two things do you consider when evaluating the time value of money?

Inflation and interest earned

16. Calculate the compound interest for each problem below.

- \$1,000 at 6% interest for three years

1191.02

- \$500 at 18% interest for four years

969.39

- \$1,500 at 12% interest for two years

1881.60

17. Why do you need an emergency fund at your age?

Emergencies happen at any age