



Chapter 10- Basics of Saving and Investing

Section 1-Reasons for Saving and Investing

Pay-yourself-first

- Setting aside money for savings before paying bills.
 - A savings strategy that leads to good buying choices.
 - Most people are more careful about spending money when they have had to work hard to so save it.
 - Saving for short-term goals will help reduce your dependence on using credit

Savings

- Money set aside for the future (also known as deferred spending)
- Emphasis on “safety of principal”—protecting the balance in your account
- Types of savings—safe, because these are FDIC Insured
 - A savings account
 - A certificate of deposit
 - A money market
- Since these are safe investments, these typically have a low interest rate.
- Interest changes based on Bank Rate
- Savings that accumulates above what you need for short-term goals and emergencies, provides money for investing

Investing

- A strategy to earn more on your money than the rate of inflation
 - Purpose is to make your money grow
- Ways to invest
 - Buy real estate
 - Buy stocks
 - Mutual Funds
- Investments grow, which lead to wealth—the accumulation of assets over a lifetime

Considerations for Investments

- Investments provide wealth
- Money left in a savings or money market account for a long time is considered an investment
- Investments with higher rates of return have a greater degree of risk
- Investments should grow faster than the rate of inflation to accumulate wealth

Emergency Fund

- Money set aside to pay for unplanned expenses
 - Gives a sense of security
 - Won't have to borrow money for unexpected expense
 - Can be saved in a separate account or as an untouched balance in a checking account
 - Author of textbook suggests \$1,000 would be enough to cover most emergencies
 - Dave Ramsey recommends a \$1,000 emergency fund, plus 3-6 months of your personal expenses be set aside.
 - Suze Orman recommends 8 months of your expenses be set aside in an emergency fund.

Liquidity

- The measure of how fast an asset can be turned into cash
 - Financial plan should have liquid assets
 - Provides financial security
 - These liquid assets can cover unexpected needs
 - Savings account is an example of a liquid asset

Short-Term Goals

- Goals you want to accomplish within the next few weeks, months or a year
- Examples:
- Contingencies
 - Unplanned or possible events
- Vacations
 - Leisure time—free time used to engage in enjoyable activities
- Purchases (concert tickets, etc.)

Medium-Term Goals

- Goals that you want to accomplish in two to five years
- Examples:
 - Buying a car
 - Paying for college education
 - Planning a wedding

Long-Term Goals

- Goals you want to accomplish in five to ten years and beyond
- Examples:
 - Retirement
 - Buying a home
 - Providing for a family

Financial Security

- The ability to meet current and future needs while living comfortably
- Built on saving and investing
- Must be built over time
- Being financially secure enables you to meet your personal goals
- Create a financial plan with goals, benchmarks and timelines
- Planning ahead helps you maintain your financial security

Retirement

- The period of time, usually in later years, when you are not working, but are able to meet expenses through other income sources
- Sources of Retirement income:
 - Employer-provided retirement plans
 - Social Security
 - Savings and Investments
- Some costs are eliminated once you retire, such as mortgage payments and work related expenses
- Costs that usually stay the same include: groceries and utilities
- Medical care costs tend to increase

Estate Planning

- Estate—All that a person owns (assets), less debts owed, at the time of a person's death
 - Assets can include: bank accounts, investments, property and other items of value
 - Life insurance proceeds can also be a part of an estate
- Estate planning-the process of preparing a plan for transferring property during one's lifetime and at one's death
- Sometimes people leave money for philanthropic causes, and which can include a foundation
 - Foundation-a fund or an organization established and maintained for the purpose of supporting an institution or a cause

Estate Planning (continued)

- Will-A document that passes the title of property after a person dies
 - If you die without a will your property will be distributed in accordance with the laws of the state
 - Minors (under age 18) cannot make a valid will unless they have been emancipated
 - The purpose of a will is for you to have your property distributed as you wish after you die.
- Simple Will-A document that declares you are of sound mind and body and describes your wishes for distribution of your property at death
 - Heirs-people you want to inherit your money and property
 - Executor-person who will be in charge of administering the will along with your attorney
 - Probate-the process of gathering an estate, paying final expenses and distributing the balance of money and property to those you have chosen

Estate Planning (continued)

- Holographic Will-a will that is handwritten
 - Some states do not recognize this type of will
- Trust Will-A long and complicated document that leaves your estate in trusts to benefit your children and other heirs
 - Typically used by people who have minor children, because it provides for their care
- Living Will or Health Care Directive - this document describes your wishes at the end of your life
 - Specifies the type of effort you would want taken in the event you not recover from an injury or illness
 - Also, expresses organ donation wishes