CHAPTER 11- SAVING AND INVESTING OPTIONS

Section 11-1-Low-Risk Choices

SAVINGS

- What is Savings?
  - Savings is money set aside for future needs
- Features that savings should have:
  - Liquid-meaning it can be quickly changed into cash and is easy to access
  - FDIC insured-making it safe
    - Examples: checking or savings account in a bank with no restrictions on withdrawals

ILLIQUID INVESTMENTS

- Investments that cannot be converted to cash quickly or without penalty
- Typically pay high returns than a liquid investment
- Examples: CD's, Savings Bonds, Mutual Funds, Stocks

SAVINGS ACCOUNTS

▶ A low-risk, liquid savings option

▶ FDIC insured

▶ Usually don't have withdraw penalties

▶ Usually pays a low rate of interest

▶ Considered a safe place to put your money

MONEY MARKET DEPOSIT ACCOUNT

- ▶ Large deposit required
- ▶ Minimum balance required
- ▶ FDIC insured
- ▶ Liquid
- ▶ Higher interest rate than savings account

MONEY MARKET FUND ACCOUNT

- **Money Market Fund Account**
  - **NOT** FDIC insured
  - A low-risk mutual fund that invests in low-risk securities
  - Liquid
  - No load fees (charged for entering and exiting a mutual fund)

CERTIFICATES OF DEPOSIT

- Money set aside for a specific length of time at a fixed interest rate
  - Set amount of money invested for specific length of time
  - FDIC insured
  - NOT a liquid investment
  - Heavy penalty if you withdraw funds early
    - Early-withdrawal penalty-a fee imposed to discourage depositors from withdrawing the money before the stated time period
  - Low-risk investment
  - Inflation risk is the only risk (lose money on investment if rate of inflation is higher than interest rate)
  - Special Feature of some CDs: can be "borrowed against"
    - Can get a loan because you have a CD with a bank
    - A CD is then "pledged" until it matures or the loan is paid off and cannot be cashed out until one of those conditions has been met.

BONDS

▶ A bond is a loan that a buyer makes to a bond issuer.

▶ Face Value Bonds-the amount that the bondholder will be repaid on the maturity date (date the borrowed money must be repaid)

▶ Discount Bond-a bond that is sold for less than its face value

▶ Premium Bond-a bond that is sold for more than its face value

CORPORATE BONDS

▶ Issued by corporations to raise money

▶ Bonds are a form of borrowing for a company

▶ Types: Coupon rate, callable bond, convertible bond, zero coupon bond

GOVERNMENT BONDS

- A tax-shelter investment-allows you to legally avoid or reduce income taxes
- Types of investments:
    - Series EE Savings Bonds: safe, low-risk, sold for half of the face value, penalty if redeemed before five years, tax free earnings if used for educational expenses
    - I Savings Bonds: low-risk, penalty if redeemed before five years, tax free earnings if used for educational expenses, pays interest for up to 30 years, purchased at face value

GOVERNMENT BONDS/SECURITIES

▶ Treasury Bills (T-Bills): discounted from face value, no minimum ownership term required

▶ Treasury Notes (T-Notes): minimum $100 purchase required, 30-year term, no minimum ownership term required

▶ Treasury Bonds: Minimum purchase of $100, 30-year term. Pays interest every six months until maturity, no minimum ownership term required

▶ Treasury Inflation-Protected Securities (TIPS) Guaranteed to keep pace with the rate to inflation. Face value increases with the rate of inflation. Interest paid twice yearly, at a fixed rate, minimum purchase is $100, no minimum ownership term

MUNICIPAL BONDS

▶ Issued by states, counties, cities and towns

- ▶ Used to pay for projects, such as roads or public buildings
- ▶ Tax-exempt earnings
- ▶ Low-risk investment
- ▶ NOT FDIC insured

ANNUITIES

▶ Annuity: a contract purchased from an insurance company that guarantees a series of regular monthly payments for a set time.

  ▶ Features of an annuity:

    ▶ A monthly payment is paid into an account for a set number of years

    ▶ At the end of the set number of payments, the account starts paying you monthly payments

    ▶ Usually, low-risk

    ▶ **NOT** FDIC insured

    ▶ Tax-deferred

    ▶ Often used for retirement