Worksheet B—Create a Savings Plan

Saving does not simply happen for most people. It most often is the result of creating and following a savings plan. If you want to have enough money to pay for your future education, you need to establish a savings plan now. The steps for creating a savings plan typically include:

1. Setting goals for your savings plan.

2. Determining how much you are able to save per period of time.

3. Deciding where you want to place your savings.

4. Periodically evaluating and adjusting your savings plan.

Imagine that you want to save $2,000 per year to put toward the cost of an advanced education. Create a savings plan you think you could achieve following the steps above. Why is it important for you to evaluate the results of your plan every so often? What would you do if you found you were not achieving your savings goals?

1. My goal for a savings plan would be to save $2,000 each year to put toward the cost of

2. How much do you think you could you save per week? What would this amount to per year?

3. Where would you place your savings?

4. How often would you evaluate your savings plan? What would you do if you found you were not meeting your goal?

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Worksheet A—Calculate the Future Value of Your Savings

When savings are deposited in most bank accounts, they earn interest. The rate of interest that is paid, however, can vary widely, depending largely on the term, or length of time that the funds will be left on deposit with the bank. When banks know they will have the use of deposited funds for long periods of time, they are able to invest them in ways that earn a better return for them. They are, therefore, willing to pay higher rates of interest to depositors who agree to leave their funds on deposit for extended periods of time.

Regardless of how often interest payments are made, they must be reported to depositors using the same method that has been established by the government. This is the Average Percentage Rate (APR). The APR makes it easy for savers to compare interest rates. A bank account that pays 2.1 percent APR for a one-year deposit offers 0.1 percent less than a bank that pays 2.2 percent APR for a similar deposit.

The value a deposit will reach over a number of years may be calculated by using this formula:

Value $= P \times (1 + i) \times (1 + i) \times (1 + i)$ . . . for as many years as there are in the term of the deposit

Where:
P = Principle (original deposit)
i = interest rate expressed as a decimal (APR)

Directions: Use this formula to calculate the final values of each deposit.

1. $1,000 deposited for three years at an APR of 3.5 percent

2. $1,000 deposited for two years at an APR of 3.0 percent

3. $1,000 deposited for four years at an APR of 4.0 percent

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