Types of Savings Accounts

Lesson Author

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Standards and Benchmarks (see page 13)

Lesson Description

Please note that this lesson assumes students have prior knowledge about interest rates. A suggested lesson for this topic is listed in the *Preparation* section below. Choosing a savings account is an important financial decision that can help people achieve their financial goals. Banks offer customers a variety of options when it comes to savings accounts. This lesson focuses on the following three types of savings accounts: traditional, money market, and certificate of deposit. Students will learn the characteristics of each type of account and participate in two activities to review and develop an informative brochure utilizing what they have learned.

Grade Level

6–12

Concepts

Certificate of deposit account

Federal Deposit Insurance Corporation (FDIC)

Interest

Long-term goal

Money market savings account

National Credit Union Administration (NCUA)

Opportunity cost

Principal

Saving

Savings

Savings account

Short-term goal

Traditional savings account

Objectives

Students will be able to

- compare and contrast the costs and benefits of three types of savings accounts;
- define *saving*, *savings*, *short-term goal*, *long-term goal*, *certificate of deposit*, *interest*, and *money market account*;
- explain the difference between long-term and short-term financial goals;
- describe the purpose of savings accounts; and
- compare and contrast interest for savers and interest for borrowers.

Compelling Question

How can identifying the different features and benefits of savings accounts help people reach their financial goals?

Time Required

45–60 minutes

Materials

- One copy of *Handout 1: Get Up and Match Game* cut into cards, keeping the cards from column A together and the cards from column B together
- One copy of *Handout 2: Assessment* for each student
- An 8½-by-11-inch blank sheet of paper for each student
- Pencil, markers, crayons, or colored pencils
- Blank sheet of notebook paper for each student
- Optional: Dry erase board, marker, and eraser for each group of 3–4 students

Preparation

- The lesson assumes that students have previous knowledge about interest rates. *It's Your Paycheck Lesson 5: Savvy Savers* at https://www.stlouisfed.org/~/media/education/curriculum/pdf/its-your-paycheck-lesson-5.pdf?la=en teaches students about the different types of interest and other concepts about saving.

Procedure

1. Explain that many people set goals for themselves. Some goals are personal, professional, or financial. Discuss the following:

    - Do you know what a financial goal is? (*A specific future outcome involving spending or saving money, or both*)
    - Name some examples of financial goals. (*Answers will vary. Some examples may include getting a job, saving for an emergency, purchasing something, or paying off debt. Saving for college, a car, a house, a smartphone, or a computer are other examples.*)

2. Explain that financial goals involve financial planning. A good plan is essential for accomplishing any financial goal. These goals can be short-term or long-term. A **short-term goal** will take a year or less to accomplish. A **long-term goal** will take more than a year to accomplish. Discuss the following:

    - If someone is saving for their first car, what factors may determine whether the goal will be short-term or long-term? (*It could depend on whether they have a job or not. If they do have a job, it will then depend on how much they earn and how much of their earnings they will save. The type of car and price are also factors.*)
    - Regardless of whether a goal is short-term or long-term, what do you consider the most important factor for accomplishing that goal? (*Answers will vary. Factors mentioned may include making a good plan, being determined, finding the right resources to make it happen, and making a realistic and attainable goal.*)

3. Explain that while most financial goals involve saving, there are other goals that do not. Before they are able to save, people may need to achieve some other financial goals, such as paying off debt to avoid interest payments, changing their spending habits so that they have money to save, or finding a job so that they are able to earn income to spend and save.

4. Explain that **saving** is income not spent on current consumption or taxes. Saving involves not buying goods and services now so that we can buy goods and services in the future. **Savings** is the accumulation of money set aside for future spending. As you save more money, your savings will grow and you will get closer to your goal.

5. Explain to students that when you choose to give up one thing to do or have something else, it is called **opportunity cost**. Opportunity cost is the value of the next-best alternative when a decision is made; it's what is given up. Explain that people make choices every day and that there is an opportunity cost to those choices. When you choose to spend money now, you give up saving that money to help you meet a future goal. Ask the students, "What is the opportunity cost of saving?" (*The opportunity cost of saving is giving up buying goods and services now.*)

6. Tell students to write down three financial goals on a blank sheet of notebook paper and to label each goal as either a long-term or short-term goal. At least one of the three goals must involve saving for something.

7. When students have finished writing their three financial goals, ask them to share one or all of their financial goals and whether each goal is a long-term or short-term goal.

8. Tell students to pick out the financial goal that involves having to save money. If they have more than one, they should choose the goal they would most like to accomplish. If some students are choosing between goals, use one or two as an example of a decision involving opportunity cost. This includes discussing the costs and benefits of each and choosing the goal that will provide the greatest benefit relative to the costs, while also identifying the opportunity involved with this choice.

9. Discuss the following:
   - What do you need to be able to save to accomplish your goal? (*Income or money*)
   - Where can money be saved? (*In a bank, piggy bank, jar, hidden place, etc.*)
   - Of the places where money can be saved, which one is the safest? (*A bank is the safest.*)

   Explain that although people keep money in other places, it could be stolen or damaged in a flood or fire. Banks or credit unions are good places to keep your money because they are safe, but there are other reasons to keep your money in banks or credit unions.

10. Explain that a **savings account** is an account with a bank or credit union where people can deposit their money for future use and earn interest.

11. Explain that banks are usually the safest because they are insured by the **Federal Deposit Insurance Corporation (FDIC)**. It is a U.S. government agency that insures deposits in banks and thrift institutions and supervises state-chartered, non–Federal Reserve member banks. The FDIC insures deposits in commercial banks of up to $250,000 per account per customer.

12. Explain that credit unions are also safe because deposits per account per customer are also insured for up to $250,000 by the **National Credit Union Administration (NCUA)**. The NCUA is another independent agency created by Congress to supervise and regulate federal credit unions.

13. Explain that in addition to being insured, banks also pay interest to savers and charge interest to borrowers. Any amount of money that a person deposits into a savings account is known as the **principal**. Banks pay interest on the principal amount in the account. Explain that **interest** is the price of using someone else's money. Banks also make loans to customers. People pay interest on the money they borrow.

14. Ask students how compound interest helps the money in a savings account grow. *(Compound interest helps the money in an account grow because compound interest is interest paid on the principal in the account plus interest paid on any interest already earned.)* To review compound interest, show the video *No-Frills Money Skills—Compound Interest* at https://www.stlouisfed.org/education/no-frills-money-skills-video-series/episode-1-growing-money-compound-interest.

15. Explain that people with financial goals can turn to banks where there are a variety of savings accounts to help them reach their goals. Ask students if they have a savings account. If they do not, ensure them that it is okay and that they can speak with their parent or guardian about opening one up.

16. Display *Slide 2*. Explain that for most people, saving enough to cover expenses in case of an emergency is a goal. Whether it is in case of job loss or any other unexpected event that can interrupt your income, having some money saved for an emergency is important.

17. Display *Slides 3–5* and discuss the characteristics of each type of savings account. Point out the information on the slide, in addition to the information provided below about each type of account.

    - **Traditional Savings Accounts**
        - Unlike a checking account, you cannot write checks or pay at the store with the money in your savings account. To access the money to make purchases, you must visit an ATM or bank branch to make a cash withdrawal. You can also make a transfer from a savings account to a checking account through online banking.
        - These types of savings accounts are great when you save for a big purchase or an emergency fund.
        - Student savings accounts are offered with little to no minimum balance required.
    - **Certificate of Deposit (CD) Accounts**
        - Money is locked in for a set amount of time; that is, the amount of money you put in and the interest rate are fixed. This means that you cannot add more money and the interest rate will not change during the term of the CD.
        - Having a fixed interest rate means that the interest rate will not increase or decrease during the term of the CD.
        - When the CD matures, you can ask the bank to place it in a CD again, along with the money earned in interest. This is known as "rolling it over."
        - CDs can range from less than a month to more than nine years.

- **Money Market Savings Accounts**
  - o This type of account is a great tool if you are saving for a major project such as fixing up a car, starting a small business, or remodeling a home. You will still be able to access the money as you make purchases for the project.
- **All Types of Accounts**
  - o Be sure to research what the fees are if you do not keep at least the minimum balance.
  - o Ask about student accounts and automatic savings plans.
  - o Also, inquire if the bank pays simple or compound interest on savings, and make sure that the bank is a member of the Federal Deposit Insurance Corporation (FDIC) so that your account is insured. Or, if you are researching a credit union, make sure that the credit union in question is a member of the National Credit Union Administration (NCUA).

18. Ask students the following:
    - Which of these savings accounts do you think would be the best to help you reach your financial goal? Why? (*Answers will vary, depending on whether their goal is a short-term or long-term goal and their preferences.*)

19. Explain that the next six slides have review questions about some of the concepts they just learned about. Students should write their answers on a blank sheet of notebook paper. After students have finished answering a question, display the answer for review and then move on to the next question.
    - Optional way to review: Place students in teams of 3–4. Assign each team a number. On the board, write the team numbers in individual columns so you can keep score. Give each team a dry erase board, marker, and something to erase the board with. Instruct the teams to write their assigned team number on the top of the board. The teams will work together to answer the questions as you display them one by one. To make it competitive, you can time students for up to 2 minutes and 10 seconds, depending on the question, as they work together to find the answer and have one person write it on the board. The teams that put their boards up with the correct response when the time is up earn a point. In the event of a tie, you can ask additional review questions about the concepts and award points to the team that has its board up first with the correct response.

20. Explain that students are going to participate in an activity. Divide the class in half. Distribute a card from column A in *Handout 1: Get Up and Match Game* to each student in half of the class and a card from column B to each student in the other half of the class. If there are more cards than the number of students in your class, be sure to distribute cards from column A and the corresponding match from column B and set the excess cards aside.

21. Explain that students in one half of the class have cards that provide a definition, statement, or example. Students in the other half of the class have cards with a term/concept. Explain that when you announce, "Get up and match!" students should get up and find their match—matching the term/concept with the appropriate definition, statement, or example.

22. Announce, "Get up and match!" Once everyone has matched up, each pair of students will share what is stated on their card and the term/concept on the card. The rest of the class will decide whether the match is correct. Continue until all matches have been reviewed. Refer to the original uncut copy of the handout as an answer key.

Closure

23. Display *Slide 12*. Explain that students will now imagine that they work for the advertising department of a local bank. The president of the bank wants to provide customers with an informative brochure about the three types of savings accounts they offer: CD accounts, traditional savings accounts, and money market accounts. The bank president requests that the following information be included in the brochure about each account:
    - Type of savings account
    - Withdrawal limit
    - Minimum balance requirement
    - Interest rate earned and whether the rate is simple interest or compound interest, as compared with the other account options
    - Examples of short-term and long-term goals that each type of account can help accomplish
    - A drawing that illustrates the features and benefits of the type of savings account
    - A glossary of the following terms, with definitions written in your own words: *saving*, *savings account*, *interest*, and *FDIC*
    - A short statement about the purpose of having a savings account

24. Distribute a blank 8½-by-11-inch sheet of paper to each student. Demonstrate how to do a tri-fold using the following:
    - Lay the paper flat, horizontally on the desk. With a pencil, mark on the top and bottom of the page, along the 11-inch side, to divide the length of the paper into equal thirds. (The marks should be at 3 2/3 and 7 1/3.) Fold the 1/3 left side over to meet with the mark indicating the 1/3 right side. Press lightly to make a crease. Open the sheet up again. Fold the 1/3 right side over to meet with the mark indicating the 1/3 left side. Press lightly to make a light crease. Open the sheet again. Fold over the right side and stop at the crease on the left. From the left, fold it over without going past the crease on the right. Make sure all the edges line up and then press down on each fold.

- The cover of the brochure is the outside of the left fold. When opened, students will use the three sections inside the brochure to list information about each type of savings account. Students can be creative with where they place the glossary, the color they choose, and any designs they wish to add.

Assessment

25. Hand each student a copy of *Handout 2: Assessment.* Allow students time to answer the questions. Review the following questions and the answers provided:

    - Describe the difference in features and benefits between a traditional savings account, a money market savings account, and a certificate of deposit. (*Traditional savings accounts pay a lower interest rate compared with other savings accounts. The minimum balance required can be as low as $0 for student accounts, and there can be up to six withdrawals per month. Certificate of deposit (CD) accounts usually pay a higher interest rate compared with traditional savings accounts. Withdrawal is limited to when the specified period of time is up (maturity date), and the account requires a minimum deposit of $500 or more. Money market savings accounts pay a higher interest rate compared with traditional savings accounts, with up to six withdrawals per month. Money can be accessed by writing a check, and money market accounts require higher minimum balances than other savings accounts.*)
    - Explain how interest works differently for savers versus borrowers. (*Savers earn interest when they deposit their money in any type of savings account at a bank or credit union. Borrowers are charged interest from the bank or credit union for the use of the borrowed funds.*)
    - Provide an example of a choice between saving and spending. Identify the opportunity cost involved. Be sure to include a choice and state the opportunity cost. (*Answers will vary, depending on the personal examples that students share. Here is a sample answer: A student has $500 and needs to choose between saving for a trip or buying a smartphone. If the student chooses to buy the smartphone, then the opportunity cost is not saving for the trip.*)
    - Explain why banks and credit unions are safe places to save money. (*Banks and credit unions insure deposits of up to $250,000 per account per customer.*)
    - What are the benefits of having an emergency fund saved up? (*Just in case you lose your job or cannot work for an extended period of time, you will at least have money to pay your essential expenses for a few months.*)
    - Describe the difference between a short-term and long-term financial goal. Support your answer with an example of each. (*A short-term financial goal takes a year or less to accomplish. A long-term goal will take more than a year to accomplish. An example of a short-term goal is starting to save in January for holiday shopping in December. An example of a long-term goal is starting to save in eighth grade for a car you want to buy by the time you start tenth grade.*)

- Opinion question: Why do you think it is beneficial for banks to offer a variety of savings account options to their customers? (*Answers will vary but may include the following: People have different financial goals, and the variety of accounts can help meet those goals. The different minimum balance required allows people of various income levels to save what they can based on which account they can afford to maintain.*)

Handout 1: Get Up and Match Game (page 1 of 2)

A	B
Money can be put away here for future use.	Savings account
Income not spent on current consumption and taxes	Saving
Mary wants to save for a new backpack, but she also wants to buy new headphones now. She chooses to save for the backpack and gives up buying the headphones now.	Opportunity cost
Patrick sets his mind on finding a job in less than six months.	Short-term goal
Lisa wants to save enough money to buy a new house in 1.5 years.	Long-term goal
David has $5,000, and he would like to save it in an account where he cannot withdraw any of it for a few years.	Certificate of deposit (CD) account
The Bank of Bill wants to encourage customers to save. The bank is offering to pay its customers to save at the Bank of Bill.	Interest
One of the reasons a bank or credit union is a safer place to keep your money	Federal Deposit Insurance Corporation (FDIC) /National Credit Union Administration (NCUA)

Handout 1: Get Up and Match Game (page 2 of 2)

A	B
Six withdrawals per month	Savings account withdrawal limit
The interest rate will not increase or decrease.	Fixed
Allows the account holder to write checks to make payments with money from the account	Money market savings account
Can range from $0 to over $1,000	Minimum balance requirement
When a specified period of time is up and savings plus earned interest can be withdrawn without a penalty	Maturity date
Interest computed on the sum of the original principal and the accrued interest	Compound interest
Specializes in providing customers a variety of financial services, including savings accounts	Banks
A type of goal that can involve saving a certain amount of money	Financial goal

Handout 2: Assessment

1. Describe the different features and benefits of a traditional savings account, a money market savings account, and a certificate of deposit.
2. Explain how interest works differently for savers than it does for borrowers.
3. Write an example of a choice between saving and spending. Identify the opportunity cost that is involved. Be sure to include a choice and state the opportunity cost.
4. Explain why banks and credit unions are safe places to save money.
5. What are the benefits of having an emergency fund saved up?
6. Describe the difference between a short-term and long-term financial goal. Support your answer with an example of each.
7. Opinion question: Why do you think it is beneficial for banks to offer a variety of savings account options to their customers?

Standards and Benchmarks

National Standards for Financial Literacy

Standard 3: Saving

- **Benchmarks: Grade 8**
  2. For the saver, an interest rate is the price a financial institution pays for using a saver's money and is normally expressed as an annual percentage of the amount saved.
  5. *Principal* is the initial amount of money for which interest is paid.
  8. Different people save money for different reasons, including large purchases (such as higher education, automobiles, and homes), retirement, and unexpected events. People's choices about how much to save and for what to save are based on their tastes and preferences.
  9. To assure savers that their deposits are safe from bank failures, federal agencies guarantee depositors' savings in most commercial banks, savings banks, and saving associations up to a set limit.
- **Benchmarks: Grade 12**
  1. People choose between immediate spending and saving for future consumption. Some people tend to be impatient, choosing immediate spending over saving for the future.
  6. Government agencies supervise and regulate financial institutions to help ensure the safety, soundness, and legal compliance of the nation's banking and financial system.