

MONEY MANAGEMENT

INTRODUCTION



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SECTION OVERVIEW

Saving for a rainy day is an old tradition but in America, it seems to be a fading one. Or is it? According to different measures, the U.S. personal savings rate has fallen from 8 percent in 1994 to -0.6 percent in July 2005. That suggests that the average American family is spending more than it earns and is saving less than nothing.

Can it be true? Yes and no.

ACNielsen, a well known research firm, reported in May 2005 that 23 percent of Americans deposit money into a savings account. That includes a large number of families. So some families are saving.

The U.S. savings rate, as reported by the Department of Commerce, does not include IRA, 401(k), mutual funds or other stock investment accounts, or the earnings on them. It also does not include the increases in home values or other improvements to a family's financial worth. Yet, many people correctly consider these investments as savings.

Fewer people are putting funds into traditional savings accounts, because returns tend to be lower than that of other savings vehicles, but that does not mean that people are not saving through other systems. Several informal savings patterns are important to consider:

- Some groups with roots in areas such as Latin America, Africa, Asia, and the Caribbean form small, informal savings groups through their families or churches, and lend the money to members to buy homes, start businesses, or fund education.
- In some families, older relatives loan money to younger families to help them buy homes or make other major purchases.

The important concept is that however people save or get access to savings, they need to know how to make the right financial decisions.

Saving vs. Investing

Financial experts usually define saving as a short-term activity – one to five years -- targeted for a specific goal such as saving for a new car or for the down payment on a home. Investing, by comparison, is a long-term effort, such as putting money into a mutual fund, an educational savings account, IRA or 401(k). In general, investments are for major expenses that extend over several years, such as a college education or retirement.

The benefit of investing over time is clear:

- The Standard & Poor's 500 (S&P 500) stock index has increased

MONEY MANAGEMENT INTRODUCTION



almost 200 percent since 1970. An investment of \$1000 in 1970 is worth \$200,000 today.

- On average, the stock market returns 12 percent per year, including dividends.

Savings rates, by comparison, have been much lower, anywhere from 1.5 percent to 5 percent, usually depending on the length of time the savings are deposited.

The Rule of 72 is a very useful tool for comparing savings and investment choices. Divide the interest rate into 72 to find out how long it will take your investment to double in value.

<i>If you invest</i>	<i>at interest rate of</i>	<i>in xx years</i>	<i>you will have</i>
\$5000	10%	7.2 years	\$10,000
\$1000	8%	9 years	\$2000
\$500	4%	18 years	\$1000

Notice that the higher the interest, the less time it takes for money to double. Also, the more often interest is compounded, the faster the money grows. Time is a true friend for every person who saves and invests. Be sure to emphasize this important principle in your presentations.

Consider the implications of time:

- The return on stocks is not guaranteed, so even if the stock averages have been higher over time, an investor who needs a specific amount at a specific time may be better off with an investment plan that provides a guaranteed return. Annuities, certificates of deposit, or insurance plans are examples.
- Money invested in long-term accounts is not available on short notice for emergencies. This includes money invested in retirement plans, IRAs, 401(k)s, and similar plans. Sometimes it is possible to withdraw the funds, but usually there are major penalties and taxes due.
- Money in a traditional savings account typically earns less than other investments, but the funds are more easily obtained to meet emergencies.

Most people need to have a combination of savings and investments in order to meet their short- and long-term financial goals. The exact amount of each and the balance among types is up to each individual or family.

ADAPTING THE PRESENTATION TO YOUR AUDIENCE

Learning to manage money is not easy. In fact, it can be quite complicated. Help your audience members develop confidence and take a broad view of financial education. Encourage them to stop, look, and listen to financial information – soon they will realize that there is a great deal to learn and that there are many reliable sources for savings and investment advice. Your confidence and encouragement is essential. It will help them feel comfortable

MONEY MANAGEMENT INTRODUCTION



as they gain knowledge. Avoid asking questions that require a show of hands or other public display of knowledge or opinion. Instead, encourage your audience members to volunteer examples or information.

Many of the activities in this section of the guide can be adapted for classroom use. In addition, there are many useful educational ideas and materials online. Refer to *Appendix 6: Resources* for examples.

Here are some tips that will help you adapt your presentation to the needs and concerns of different audiences:

Teens

- Often have a part-time job. This is an excellent opportunity for them to begin using banking services, especially checking and savings accounts.
- Many have goals that require major amounts of money, such as prom expenses, a car, or college. It is essential for them to know how to save and plan for such purchases.
- They like being spoken to as adults, and are generally anxious to get the best value from their money.
- Enjoy doing research, such as collecting brochures or ads about financial products, and comparing the interest and other terms of the products.
- Would benefit from learning about job responsibilities in banking, insurance, and investment. Consider a field trip or an additional activity that encourages students to interview people employed in these fields.

Online educator resources:

<http://www.jumpstart.org/states.cfm>

<http://www.italladdsup.org/>

Low-income families

- May not have had much experience opening a savings account.
- May have few resources available for emergencies.
- May not be familiar with the various types of savings plans available through a bank, credit union, or other resource.
- Need to know how to identify reliable, safe resources for saving.
- May be concerned that bank records are not confidential and that they may make them ineligible for some public assistance programs.
- May have developed a negative impression of banks and credit unions.

Young single adults and families

- Need to know how much money they need to manage emergencies.
- Need to understand how to open and maintain savings accounts.
- Are often unskilled at making major financial decisions. They could benefit from advice offered by bank or credit union experts.
- May need to consider insurance and other long-term investment choices such as an IRA.

MONEY MANAGEMENT INTRODUCTION



Consider a Q&A Opportunity

Many people are uncomfortable talking about financial issues in a group setting. Make a Financial Facts Q&A mailbox to allow participants to drop in cards with questions. Take a few minutes at the end of the session to answer a couple of the questions, and include content about other questions in later presentations.