

# SP<sup>3</sup> - Student Planning Pointers for Parents



## Start Saving Early

Saving money is rather like building an insurance policy for yourself against life's mishaps.

A savings account will:

- ▶ Help you plan for large purchases, such as a car, laptop and college.
- ▶ Help you develop sound financial principles and learn the value of money.
- ▶ Create emotional rewards such as peace of mind knowing you're ready in an emergency.
- ▶ Help you plan for even further in the future for things like buying a house, traveling and retirement.
- ▶ Reward you for saving by earning interest, giving you even more money.

Putting money into a bank or credit union means you are paid interest for letting your money sit there. Meanwhile, the bank makes a profit by lending that money to others at an even higher interest rate. Interest is a fee charged to someone for purposes of lending them money; but it works in your favor when you earn interest on your savings account through compound interest.

Compound interest allows you to earn interest on your interest. As an example, let's say you deposit \$1000 into a savings account. The bank is going to pay you 5% on that initial \$1000 after one year of saving. You've just earned \$50 for just keeping your money in the bank!

Now you have \$1050 saved, and after another year, you'll have earned another \$52.50 on your initial investment. This doesn't even include any additional money you may have deposited. The more money saved, the faster your money grows. Likewise, the earlier you start saving, the better off you are.

The chart below illustrates the above example, but keep in mind, some banks will calculate interest on a monthly basis, which increases your savings account balance even more frequently.

Interest Rate = 5%, Initial Deposit of \$1,000			
	(A)	(B)	(C)
Year	Beginning Balance	Interest	Ending Balance
	(C) from Previous Period	(A) x 0.05	(A) + (B)
1	1,000.00	50.00	1,050.00
2	1,050.00	52.50	1,102.50
3			
4			

In the above example, after 40 years (a long time!), that initial \$1,000 deposit would grow to over \$7,000. That's how you put the power of saving and compound interest to work for you.

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