

# KIDS & MONEY



A newsletter for young people

## SAVINGS

### Saving Money

You may get money for your birthday, holidays, washing windows or mowing the lawn, or as an allowance. When you get money, you can do three things: spend it, share it or save it.

Often, spending money right away is fun. Sometimes you want to buy something that costs more than the amount of money you have. Then you need to plan to save your money until you have enough to make your purchase.

To save means to keep for future use. You always should try to pay yourself before you pay for your expenses. The most common suggestion is to save 10% of your income; however, any savings is better than no savings.

You can save your money in a piggy bank, or in a savings account. If you do not have a savings account, ask your mom and dad for help in opening one.

While your money is in a savings account, the bank adds interest to it. Interest is money that the bank pays you for keeping money in the bank. The bank adds interest to your savings account as it is earned. The bank may loan your money to someone else, but you always will be able to get your money when you need it.

For example, when you save enough money to make your special purchase, you will need to go to the bank. You can withdraw your money from the bank when you need it, but first you must get your parents' permission. Try not to make too many withdrawals.

You can use a recording book to keep track of your deposits and withdrawals. You may receive a paper monthly statement of your account or have access electronically.

To calculate the amount of simple interest you have earned, you need to know the principal, rate and time. **Principal** is the amount of money you are saving, **rate** is the amount of money paid to you by a financial institution for saving and **time** is the amount of time the principal is saved.

Compounding interest occurs when the interest earned remains in your account. You will earn interest on the principal **plus** on the interest you've earned in the past.

Try setting goals and saving money to reach those goals. They are habits that you can learn and use throughout your lifetime.

### ACTIVITY: Money Math

#### Principal x Rate x Time = Interest

What is the simple interest and total amount saved in a savings account at the end of one year for each of the following?

\$250 principal x 5% interest for one year =

\$500 principal x 3.5% interest for one year =

\$750 principal x 4% interest for one year =

#### Calculate the following interest earned in a five-year period:

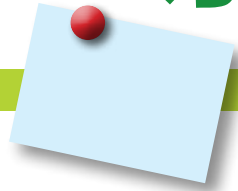
You have \$500 earning 5% interest during a period of five years.

Year	Beginning Amount Principal	Interest Rate (5%)	Annual Interest	Year-end Savings Principal + Interest
1	\$500	0.05	\$25	\$525
2	\$525	0.05	\$26.25	\$551.25
3				
4				
5				



# MONEY AND YOUR KID\$

A newsletter for parents



## \$AVING\$

### Understanding Savings

Like adults, children use money in three major ways: They spend it, share it or save it. This newsletter will explore saving.

Saving money, or postponing spending, is essential because it enables people to meet needs they can meet in no other way. People should save money with specific goals in mind. Unfortunately, the principle of goal-oriented saving does not mean much to young children because their goals usually are not well-defined, and they are not inclined to delay their gratification.

Preteens may save for clothing, gifts and special ventures, but most elementary school students neither understand nor care about long-term savings. In time, they likely will care if parents encourage them to save money according to their abilities and interests at each stage of development.

Piggy banks can introduce children to the idea of saving money. Forming the habit of dropping pennies into a piggy bank without thinking about how they will be spent isn't wrong. But saving takes on a whole new importance when you have a goal in mind. Saving for a goal can inspire children to take control of their spending habits and plan for future needs.

When your children have gained some experience in handling money, that most likely is time for them to open a savings account. Choosing a financial institution union can teach them a lot about the world of money. Involving your child in making deposits and watching the balance grow may help make savings more meaningful. The idea of interest – making your money grow – is an important one.

Helping children learn to save for specific things can be a valuable experience. They will learn that if they don't spend their money on many small purchases, they can afford more expensive things later. When children begin setting goals, make sure you guide them, but do not set goals for them. Using visual aids, such as pictures, to remind preteens of their goals may be helpful.

### Tips for Parents

- Your example is the best education for your children.
- Saving for a rainy day doesn't mean much to a child. Saving for a definite goal your children can picture is much easier.
- Goals need to be realistic. Consider the child's age and maturity.
- Money will add up faster if a child learns to save regularly, no matter how small the sum.
- Children usually learn better from praise and encouragement than from criticism and scolding. Pick out what they are doing right and try to build on it instead of just looking for what they do wrong. Even money mistakes are valuable lessons.

### Answers to activity on kids side

\$250 principal x 5% interest for one year = \$12.50

\$500 principal x 3.5% interest for one year = \$17.50

\$750 principal x 4% interest for one year = \$30.00

Year	Beginning Amount Principal	Interest Rate (5%)	Annual Interest	Year-end Savings Principal + Interest
1	\$500	0.05	\$25	\$525
2	\$525	0.05	\$26.25	\$551.25
3	\$551.25	0.05	\$27.56	\$578.81
4	\$578.81	0.05	\$28.94	\$607.75
5	\$607.75	0.05	\$30.39	\$638.14

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