Session 5
Thinking about Investing and Financial Institutions

To start today's lesson, I want you to think about this question:

You have two options; you can take $1,000,000 today or one penny today. The trick with this penny however, is that it will double every day for 31 days. Which option will you choose?

$1,000,000   The Penny

In this session we will speak about investing, banking options and different cards you may receive from financial institutions.

If you chose the million, well congratulations, you have one million dollars, but if you chose the penny you would have over $10,000,000 at the end of the 31 days! This is of course just a silly hypothetical question, but it does introduce the idea of investing. Sometimes if we invest our money the future returns can be much greater than the total we can have if we just keep it in a bank account.

First in today's lesson we are going to speak about cards you may receive from financial institutions. Here are three cards you may receive once starting a bank account:

ATM card – Some banks issue a simple card that lets you get money from their ATM's (Automated Teller Machines). Withdrawing money from an ATM is the same as writing a check, except that you receive the cash immediately. Most banks if you use your ATM card at their branch or machine it is free, but if you withdraw money from another bank's ATM machine, they could charge a fee.

Debit Card or Check Card – This card is very similar to the ATM card, but these cards can be used in stores and online – wherever a credit card is accepted. Unlike a credit card, these types of cards do not run up debt. Instead, when you purchase something with this kind of card, the money is automatically deducted from your account. If you don't have enough money in your account, the purchase can be declined, or in some cases the transaction will go through but you will be charged with a sizable overdraft fee.

Credit Card – A credit card looks like a check card, but it works completely differently. When you make a purchase with a credit card, the money does not come directly out of your bank account. Instead, you borrow money from a credit card company, and the company sends you a bill. If you don't pay your credit card bill in full each month, you pay interest, and if your payment is late you pay a penalty. Credit cards can be useful, but they can be very dangerous and usually come with high interest rates.

Types of Financial Institutions

Now that you understand a little bit about ATM, Debit and Credit cards we are going to speak about the institutions that work with those things. There are three types of financial institutions we want to speak about today: Banks, Credit Unions and Check Cashing Stores.

Banks
-Are insured by the federal government
-Offer a range of different accounts
-Big banks have branches in a lot of locations
-no charge to deposit a check into your account
-Money can earn interest

Credit Unions
-Insured by the federal government
-Not-for-profit cooperative financial institution – money is generally kept in the community to help the community
-when you put your money in a credit union you become part owner of the credit union
-no charge to deposit a check into your account
-generally lower monthly fees than banks
-money can earn interest

Check cashing store
-Will cash your paychecks at a large fee
-provide fewer services than a bank and charge much, much more
-money you pay to a check cashing store will never earn interest

Take some time and think about which financial institution may be best for you when you open your first checking account. There are many things to consider when deciding on a financial institution. Do they offer free checking accounts or do they take out a monthly maintenance fee? Are there enough locations to meet your financial needs? What type of customer service do they offer? These are a few things to consider, but you may think of others when the time comes.

Session 5 continued
Let's talk about investing

Now that we have learned about financial institutions, lets learn about another interesting aspect of our financial options: investing. Today we want you to understand when will be the right time for you to invest. The stock market is always fluctuating and we are not financial advisors, but here are some basic ideas of when you could start thinking about investing some money:

When is investing right for me?

-Do you have a job
-Do you stick to your monthly budget
-Do you regularly put money into a savings account?
-Have you researched and tried to understand different investment options?
-Do you understand the risk involved in investing?
-Do you have extra money to invest that you don't need to access for at least 5 years?

If you can answer yes to all or most of these questions than you may be ready to invest. Look to the guide on the next page to understand the benefits of investing early in your career.

To understand how investing early can benefit your financial well-being, we are going to look at three different scenarios. Each person invests their money on a separate timeline, but we are using the same rate of return of 9% for each of them.

John Invest $1,000 a year starting at age 16, but stops at age 25

Melissa Invests $1,000 a year, but doesn't start until she is 26 and continues to invest until she is 50 years old.

Jeff Invests $1,000 a year every year until he turns 50

Who would you think would have the most money, the second most money and the least?

Most _______________   Middle _________________   Least ________________

Unsurprisingly, Jeff would have the most at the age of 50 with $215,711, what may surprise you however is John actually is in the middle with $131,010 while Melissa would end up with the least amount at $84,701.

This shows that it can be very important to start investing as early as it would be financially responsible for you to do so, as the returns can be more the more years you are able to accrue that interest from the investments.

Session 5 Conclusion

Today we were able to learn about different financial institutions and the benefits each has. When you start receiving a steady income it is important to partner with the institution that will best fit your needs. You were also introduced to the idea of investing in today's lesson. Make sure you understand that there are no guarantees with investing and anytime you put money into a retirement fund or invest it in other ways there are risks involved. The time to start investing is entirely up to you, but remember all of the things we have learned so far about budgets and financial stability. Any decision you make with investing in your future make sure you take into account your family's overall situation and are financially able to do so.