Saving and Investing Exercise

"Who Ends Up With The Most Money?"

Ana vs. Shawn

Goal: The purpose of this exercise is to demonstrate to the students the importance of starting to save money "early" as opposed to waiting. Initially, it doesn't matter the savings or investing method you use really; just start the practice of "paying yourself **first** early in life. The learning point is the "time value of money"—Don't wait to start saving!

Instructions: Read the opening situation with Ana and Shawn. Ask the students to divide up into two groups based on whether they think Ana or Shawn will have the most money by retirement. Then using a flipchart or have each student calculate the respective scenarios from Pg. 3 on paper (Explain that interest is not really calculated annually but monthly or daily—this is for simplicity here). Have them calculate Ana for like 3-5 years until they get the point. Then have them 'start' Shawn at age 35—Ana has stopped saving at this point—Pg. 4 when Shawn starts. Don't show them Pgs. 3-4, they are your guide. Have the students 'physically' do the calculations without seeing the answers. Then, fast forward to age 65 and tell them how much each of the two people has and why.

NOTE: This is NOT a handout, complete as an exercise—this is a mentor guide-don't make copies for students for the session—use paper or flipcharts to actively involve students. This will be posted on the site after the session.

Who ends up with more money for retirement?

Ana puts $2000 per year into a savings account with a 10% interest rate compounded yearly. She starts on her 22nd birthday, and her last deposit is on her 33rd birthday. After that, Ana leaves the money in the savings account and lets it earn interest until she is 65.

(**Ana makes deposits over 12 years**)

OR

Shawn doesn't start saving until his 34th birthday. He deposits $2,000 per year into a savings account with a 10% interest rate compounded yearly. His last deposit is on his 65th birthday.

(**Shawn makes deposits over 32 years**)

Who ends up with more money for retirement?

	Ana			Shawn		
Age	Saved	Interest	Balance	Saved	Interest	Balance
22	$2000	$200	$2200	$0	$0	$0
23	$4200	$420	$4620	$0	$0	$0
24	$6620	$662	$7282	$0	$0	$0
..	..	..	..	..	..	..
..	..	..	..	..	..	..
33			$47,045.42			

At the end of her 33rd year, Ana has a balance of $47,045.42 in her account. Ana leaves the account Alone, and the balance Continues to earn interest.

Shawn still has $0 in savings... BUT he wants to catch up! Shawn starts saving on his 34th birthday.

Who ends up with more money for retirement?

	Ana			Shawn		
Age	Saved	Interest	Balance	Saved	Interest	Balance
22	$2000	$200	$2200	$0	$0	$0
23	$4200	$420	$4620	$0	$0	$0
24	$6620	$662	$7282	$0	$0	$0
..	..	..	..	..	..	..
..	..	..	..	..	..	..
35			$56,924.96			$4620.00
50			$237,789.70			$89,189.35
65			$993,306.59			$442,503.09

At the end of her 33rd year, Ana has a balance of $47,045.42 in her account. Ana leaves the account Alone, and the balance Continues to earn interest.

Shawn still has $0 in savings... BUT he wants to catch up! Shawn starts saving on his 34th birthday.