

# Lesson 5

## SAVINGS & INTEREST

*Saving for the Holidays*

### OVERVIEW:

Savings accounts are offered by banks and credit unions and allow depositors — customers — to accumulate money in one place. Deposits with a bank or credit union serve as a loan to the financial institution. In return for this loan, the bank or credit union will pay **interest**. The percentage used to determine the amount of interest paid is called the **interest rate**.

Interest earned on a savings account is added to the money that has been deposited to the account. Therefore, interest increases the total amount in a savings account without having to make additional deposits. *The balance in the account is earning money!* In addition, the interest earned on a savings account is based not only on deposits made to the account, but also the interest that has been earned over time. Earning interest on interest is called **compound interest**.

The interest rate is generally stated as the percentage paid on a yearly or annual basis. To determine the interest rate for a month or day using the annual interest rate, divide the annual interest rate by the appropriate time period. For example, if the annual interest rate is 15%, the monthly interest rate is equal to 15% divided by 12 months or 1.25% and the daily interest rate is equal to .04% (15% divided by 365 days).

### STUDENT ACTIVITY:

It is never too early to start saving for the holidays, and your local bank offers a Holiday Savers Account as a way to save money in an easy, convenient way.

With a Holiday Savers Account, you deposit money in an account at the bank and agree not to withdraw it until a certain date. For the time your money is deposited with the bank, the bank will pay you a specified interest rate on your account balance.

In order to open a Holiday Savers Account, an initial deposit of \$100 is required. Once your account is opened, you can deposit additional money each month until November 30. At that time, you will be able to withdraw the money and go shopping!

The bank is paying interest at the rate of 10% annually for money deposited in a Holiday Savers Account. If you open a Holiday Savers Account on March 1st with \$100 and deposit another \$100 on the first of every month from April through November, how much money will you have saved for holiday shopping if the bank pays interest on a monthly basis? What is the total amount of interest earned on the Holiday Savers Account?

Monthly interest rate = \_\_\_\_\_

Month	Beginning Balance	Deposits	Interest Earned	Ending Balance
March	\$ 100.00		\$ 0.83	\$ 100.83
April	\$ 100.83			
May				
June				
July				
August				
September				
October				
November				