WORKSHOP 10

Savings Accounts

The most common type of bank account, and probably the first account you'll ever have, is a savings account. Savings accounts allow you to keep your money in a safe place while it earns a small amount of interest each month. These accounts usually require a low minimum balance ($25), although some may require no minimum balance at all. This depends on the bank and the type of account.

Besides the fact that you will be less likely to spend it, putting your money in a savings account is a safer option because it is *insured.* In addition to insurance, banks and credit unions keep your money in a locked and fireproof safe.

Banks insure your money (up to $100,000) through the **Federal Deposit Insurance Corporation (FDIC).** This means that even if the bank goes out of business (which is very rare), your money will still be there. The FDIC is an independent agency of the federal government that was created in 1933 after the bank failures of the 1920s and early 1930s. Not a single person has lost money in a bank that was insured by the FDIC since then. Similarly, the National Credit Union Administration (NCUA) insures credit union accounts up to $250,000.

When you put your money into a savings account, it earns interest. **Interest** is money the bank pays you so that they can use your money to provide loans for other people. This does not mean you cannot have your money whenever you want it, it is simply how banks make money and how they are able to fund their loans.

It works like this:

1. You open a savings account at the bank.
2. The bank pays you interest on the money that you deposit and leave in that account.
3. The bank then loans that money out to other people, charging a slightly higher interest rate on the loan than what they pay you for your savings account.
4. The difference in interest the bank pays you vs. the interest they charge others is part of how they stay in business.

Interest on savings accounts is usually compounded daily and paid monthly. **Compounded interest** is the interest on a deposit that is calculated based on the original amount of money in your account (the initial principal) as well as the accumulated interest from previous periods.[136] This accumulated interest is essentially a form of "interest on interest" that can help make an account grow faster.

The great thing about compounded interest is that your bank is paying you interest on the money they've already paid you in interest! That means that if your account earns 1% interest, then each day, 1/365th of that 1% of the amount of money you have in your savings account is then added to your total.

Daily compounding = Principal (1 + interest rate/365)365 = (daily compounded amount)[137]

It should be noted that the interest an individual earns on their savings account is generally very little compared to interest earned on investments or very large deposits. The average interest rate is usually around 0.06%, which means you'll likely earn just a few cents each month depending on the size of your deposit. Many online banks and credit unions offer higher interest rates on savings accounts, which means more interest earned.[138]

> **Note:** Savings accounts are a great way to keep your money safe, earn interest on that money, save up for bigger purchases in the future, and have a safety net or "emergency fund" in case of unexpected circumstances.

[136] Jason Fernando. "Compound Interest." *Investopedia* Feb, 16, 2021. https://www.investopedia.com/terms/c/compoundinterest.asp
[137] Original material from Peerlink National Technical Assistance Center.
[138] Matthew Goldberg. "What is the average interest rate for savings accounts?" *Bankrate*, April 28, 2022. https://www.bankrate.com/banking/savings/average-savings-interest-rates/#:~:text=The%20national%20average%20interest%20rate,ll%20earn%20on%20your%20savings.

Different Types of Savings Accounts

Opening a savings account is the easiest way for people to save and earn money at the same time. It is the simplest form of investment. The following section goes through the different types of savings accounts available so you can decide which one is most suitable for you.[139]

Regular Savings Accounts:

Regular savings accounts are great for people who plan to make monthly deposits and earn a small amount of interest at the same time. These accounts offer the greatest freedom to control your account and make as many withdrawals as you need.

Benefits:	Shortfalls:
• Easy to access • Has low or no minimum balance • No limits in making withdrawals • No withdrawal charges	• Low interest rates • Interest rates change with the market

Certificate of Deposit (CD):

Also known as "time deposits," CDs offer the highest interest rates among saving accounts. By putting your savings in a CD for a predetermined time (anywhere from 6 months to 5 years), your money accumulates interest. Charges are applied when withdrawals are made before maturity of the account. This option is great for long-term saving but not if you need to access your savings account often to withdraw or transfer money.

Benefits:	Shortfalls:
• Offers the highest interest rates • Fixed interest rates	• Charges apply when withdrawals are made preterm • Withdrawals made preterm are made with notices ahead of time

[139] Original material from Peerlink National Technical Assistance Center.

Money Market Accounts:

Money market accounts are interest-bearing savings accounts offered by traditional and online banks and credit unions. They generally offer higher interest rates than regular savings accounts but come with more restrictions.[140]

Benefits:	Shortfalls:
• Higher interest rates • Easy to access • No withdrawal charges above maintaining your balance • Check writing and debit card options	• High maintaining balance and fees if your balance drops below it • Limited transactions • Limited check releases • Interest rates fluctuate with the market

ABLE Accounts

Achieving a Better Life Experience (ABLE) accounts are tax-exempt savings accounts for individuals with disabilities and their families. ABLE accounts make it possible for individuals with disabilities to save for the future without affecting their benefits.

Many individuals with disabilities and their families are enrolled in a variety of public benefit programs to assist with income, food, housing, and health care. To be eligible for these benefits, an individual must be, and remain, poor. ABLE accounts recognize the extra, significant costs of living with a disability (such as finding accessible housing and transportation or raising a child with disabilities). As such, individuals and their families who qualify can establish an ABLE savings account that will not affect their eligibility for public assistance like SSI and Medicaid.[141]

If you have a qualifying disability that began before you turned 26, you may be eligible for an ABLE savings account. To determine eligibility and open an account in Oregon, visit: https://www.oregonablesavings.com/ and to learn more about ABLE accounts, visit: https://www.ablenrc.org/

[140] Jim Probasco. "Money Market Account." *Investopedia,* March 23, 2021. https://www.investopedia.com/terms/m/moneymarketaccount.asp
[141] "About ABLE Accounts." *ABLE National Resource Center,* 2021. https://www.ablenrc.org/what-is-able/what-are-able-acounts/

Types of Retirement Plans

Employer-provided:

There are several types of employer-provided retirement savings plans, in which employees contribute some of their salary to retirement. The most common are 401(k) plans, 403(b) plans, and pensions. All of these plans provide for the saving of pretax dollars into a tax-deferred account, which becomes fully taxable upon retirement. 401(k) retirement plans are employee benefits and can only be obtained through an employer.[142] If you have a low-income and are contributing to a 401(k) plan, you may qualify for the Saver's Credit when you file your income taxes. Visit the IRS website for eligibility requirements.[143]

Individual Retirement Arrangements (IRAs):

IRAs are popular retirement savings options, especially if your employer does not provide you with a retirement account. IRAs are savings accounts with tax advantages that a person can use for long-term savings and investments. Anyone with earned income can open an IRA account, which can be done through banks, brokers, or investment companies. Some IRAs are owned by individuals, such as Traditional IRAs and Roth IRAs, while others function similar to a 401(k). Examples of employer-provided IRAs are the SEP IRA and SIMPLE IRA.

Traditional IRAs are called "tax-deferred" accounts. Contributions to a traditional IRA are made using pretax dollars and can be tax deductible (they can lower your tax bill for the years leading up to retirement). When you start withdrawing from these funds at retirement, you will have to pay taxes on these funds. With Roth IRAs, an individual pays an initial tax on their contribution. Contributions are made in after-tax dollars, meaning you pay the taxes up front and afterwards can withdraw your contributions at any time without tax or penalty. These accounts do not reduce your tax bill for the year you made contributions, instead the tax benefit comes at retirement.[144]

Deferred Annuities:

A deferred annuity is a life insurance contract in which an individual pays one-time or recurring deposits to a bank or insurance company and in exchange, they provide the individual with incremental payments (essentially income) when the person retires.[145]

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[142] Original material from Peerlink National Technical Assistance Center.
[143] "Retirement Savings Contributions Credit (Saver's Credit)" *IRS,* 2022. https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-savers-credit
[144] "Individual Retirement Account (IRA). *Investopedia,* Oct. 4, 2021. https://www.investopedia.com/terms/i/ira.asp
[145] David Rodeck & John Schmidt. "What is a Deferred Annuity?" *Forbes,* Feb. 4, 2021. https://www.forbes.com/advisor/retirement/deferred-annuity/

Deferred annuities are purchased during a person's working years and are used to save for retirement on a tax-deferred basis. Similar to a Traditional IRA or 401(k), your savings are not taxed until you retire and begin receiving payments. It is recommended that people make maximum contributions to employer-sponsored plans and IRAs before utilizing annuities for retirement.

Time Frame: All funds put into the accounts mentioned above are accessible when the investor turns 59 and 1/2. With the exception of Roth IRAs, a 10% IRS penalty typically occurs if the accounts are accessed before that age. In the case of Roth accounts, direct contributions can be withdrawn at any time without penalty or tax because the money has already been taxed.[146]

Investments:

Within any of the accounts mentioned above, investors will typically purchase a number of investments, typically in stocks, bonds, real estate, cash, or commodities.

- **Stocks** (equities) are shares of ownership in a company and can be risky because the money that was invested moves with the market.
- **Bonds** are a loan issued by a company or government, and can be safer than stocks but still risky because their value fluctuates with interest rates.
- **Mutual funds** consist of a basket of assets (stocks, bonds, and cash equivalents), which is less risky than investing in just stocks or just bonds.

Note: A savings account or a CD is the safest investment you can make. When beginning to save for future purchases, retirement, or other financial goals, it is best to begin with safe investments so that you can grow your money safely and securely, without the possibility of losing money from changes to the stock market or interest rates.

Tips to Start Saving for Retirement: Start saving early to take advantage of compounding interest. Contribute to your 401(k) or open an IRA, and automate your retirement contributions so you don't have to think about saving. Don't put money you might need for the future into risky investments.

[146] Original material from Peerlink National Technical Assistance Center.

Asset Building

Asset building is a way for individuals, families, and communities to gather a variety of resources to help them move towards greater economic well-being in the short and long term. Asset building emphasizes the importance of helping individuals and families learn about and utilize healthy money management and budgeting practices to address current financial issues and set themselves up for financial stability and success in the future.[147]

Asset building strategies include:

- Financial education
- Savings accounts
- Healthy management of credit and debit
- Tax credits and assistance with filing taxes
- Accessing federal and state resources
- Individual Development Accounts

Utilizing these different strategies and resources can help individuals and families address current financial challenges and build their financial resilience and human capital. An example of asset-building resources by state and federal government agencies are first-time homeowner's benefits, such as closing cost matches, down payment assistance, or the Oregon Homeowner Assistance Fund. Another example is Oregon's College Savings Plan, where parents can create college savings accounts for their children with an initial deposit of just $25. With these accounts, earnings grow tax-free, interest savings are compounded, and parents can claim a state income tax credit of up to $300.

For more information about homeowners' benefits and the Oregon College Savings Plan, visit:

- https://oregonhomeownerassistance.org/
- https://www.oregon.gov/ohcs/homeownership/Pages/housing-counseling.aspx
- https://www.oregoncollegesavings.com/

Traditional assets, such as financial assets (cash, stocks, bonds, retirement accounts, CDs), physical assets (homes, cars, land, personal valuables) are also included in asset building activities. However, sound money management and financial resilience are most important to our understanding of asset building.

[147] Administration for Children & Families. "Asset Building and Early Childhood Programs." *U.S. Department of Health & Human Services.* https://www.acf.hhs.gov/occ/fact-sheet/asset-building-and-early-childhood-programs-strategies-family-financial-security

Individual Development Accounts

Individual Development Accounts (IDAs) are unique savings accounts that match the deposits of lower income people and families for asset-building purposes. For every dollar saved in an IDA, savers receive a corresponding match, which serves as both a reward and incentive to further the saving habit. Savers agree to complete financial education classes and use their savings for an asset-building purpose – typically for post-secondary education, job training, home purchase, or to fund the creation or maintenance of a small business. In addition to earning match dollars, individuals or families learn about budgeting and saving and receive additional training before they purchase an asset. IDAs make it possible for lower-income individuals and families to build the financial assets they need to achieve their financial goals.

How Do IDAs Work? IDAs are offered through partnerships between financial institutions (such as banks and credit unions) and local nonprofit organizations or program sponsors. The IDA program sponsor organization recruits participants for the program and provides financial education classes and additional training based on the participant's asset choice. For example, training might include counseling and education for first-time homeowners, small business training, or guidance on choosing and enrolling in post-secondary education or job training programs.

After signing up for the IDA program, each participant opens a savings account with the partnering bank or credit union. The financial institution handles all transactions to and from the IDA, just as they do with other types of accounts. IDA account holders receive regular statements detailing how much they have saved and the amount of matched savings they have earned.

Time-frame & Withdrawal: An IDA program can be as short as six months or as long as several years from beginning to end. IDA participants are allowed to withdraw their money as soon as they have reached their savings goal, but they must first get approval from their IDA program sponsor. Some participants choose to use their funds toward one large savings goal, such as buying a home, while others choose to make withdrawals for a number of smaller, related goals, such as purchasing a computer and textbooks or paying for their college tuition.

Benefits of IDAs:

- IDAs have shown to be highly effective at improving savings and asset building for lower-income families.
- These services can help individuals and families build skills, further their education, and

have the opportunity to purchase a home or start a business they would not have been able to do otherwise.

- IDAs can be a key tool in helping individuals and families out of extreme poverty or cycles of poverty.

Limitations of IDAs:

- Families with severe credit issues may not qualify for loans to help their situation, even with IDA assistance.
- IDA matching programs require a lot of money for every family served, so the reach of who receives an IDA from a bank or nonprofit can be limited.[148]

To learn more about IDAs and find a local service provider, visit: https://www.oregonidainitiative.org/

Habitat for Humanity: Another resource for asset-building and homeownership is Habitat for Humanity. In their Sweat Equity concept, future homeowners work alongside volunteers to build their home or another family's home. Homeowners can also participate in homeownership classes, clear debris from build sites, thank donors and make lunch for volunteers as forms of sweat equity. For more information, visit: https://www.habitat.org/stories/what-is-sweat-equity

Economic Empowerment

Empowerment is the ability, knowledge, and power to make an informed decision for oneself. Economic empowerment is the feeling when you know you are in control of your money instead of your money being in control of you.

Ways to achieve economic empowerment:

- Invest your time and energy in learning the fundamentals of personal finance.
- Review your expenses and look for unnecessary spending. Prioritize necessities when shopping, learn to live within your means, and think before you spend.
- Know the impact of interest on your loans and/or debts
- Make savings a priority. Begin saving for retirement and to build an emergency fund or financial cushion early on.

[148] "Individual Development Accounts (IDAs)." *Rural Family Economic Success Action Network*. https://rufes.org/2012/11/21/individual-development-accounts-idas/

Dreaming Big With Minimal Resources:

Dreaming up a savings goal: What would you do if you had the money to buy what you really want? What's something you have been wanting or needing for some time, but haven't had the money to buy? What are some small, achievable purchases that will be useful to you or bring you joy?

Revisit the "Financial Dream" and "Life One Year from Now" sections of your Person-Directed Plan and think about one or two goals from your PDP that require you to save money.

Money Saving Ideas: Throughout the course, you have been committing to one money saving idea each week. Estimate the amount of money you are able to save each month using each of these tips. Only calculate the tips you are actually using.

Money Saving Tip	**Money Saved Each Month**
Using my SNAP card at the supermarket and farmers market.	$ 200
Cooking at home and making my own coffee instead of going out.	$ 100
	$
	$
	$
	$
	$
	$
	$
	$
	$
	$
Monthly Total:	$
How much can I expect to save after six months?	$
How much can I expect to save in one year?	$

It is important to note that there are other reasons to save money beyond specific goals. Knowing that you have money set aside for emergencies or a temporary drop in income can alleviate a great deal of financial stress.

Creating a Savings Plan

First, calculate how much money you will need to save in total for each savings goal. Next, figure out what your time frame is for each goal. Then, calculate how much money you will need to save each month to achieve each of these goals.

Example:

Goal:	Buy a new or gently-used bike
Timeline:	6 months
Amount needed:	$300
How much do I need to save each month?	$50

Goal:	
Timeline:	
Amount needed:	
How much do I need to save each month?	

How to Save Money on a Limited Income

- The #1 tool at your disposal for saving money is sticking to a solid, working budget. Using the money saving goals you have established, you can recalculate your budget to reflect these savings.
- Make saving money feel like a reward. Turn every dollar saved toward your goal(s) into feeling good about yourself.
- Save your change every day. Keep it in a container in your home or car.
- Put small amounts at a time into savings. It's usually much easier to put aside two or three dollars (or even five) than larger sums of money.
- Once it is set aside, don't think about it, except how it applies toward your goals.
- Put any extra income you generate into savings. Now could be a great time to open a savings account if you haven't already!

Keep in mind: your chances of success go up substantially if your savings goals are reasonable to you, if they don't feel like punishment, and if they still allow you to keep some pleasures in life that are important to you.[149]

[149] Original material from Peerlink National Technical Assistance Center.

Even if your resources seem limited, there are usually ways to set aside some money toward your savings goals if you commit to them. As you work toward your financial goals, you will become able to recognize what works for you and what doesn't. Setting, and working towards, these important and achievable goals is an empowering process. You should feel proud of the work you are doing here!

> *"If you can imagine it, you can achieve it; if you can dream it, you can become it."*
>
> William Arthur Ward

Congratulations!

You have made it to the end of The Mental Health & Addiction Association of Oregon's Money Basics financial empowerment course! Thank you for your participation and engagement throughout these 10 workshops. You have done amazing work and we hope you are proud of all you have accomplished.

We hope you found this course engaging and informative and that you can use the tools and resources you have learned to spend and save money in ways that work best for **you.** We also hope that the knowledge and skills learned and connections and community built in this course will help reduce feelings of stress or hopelessness you may have felt when it comes to your finances and help contribute to your own unique path to recovery, wherever you are on your journey.

MONEY BASICS

PEER-LED FINANCIAL EMPOWERMENT

WORKSHOP 10: SUMMARY

In this section, we learned about savings accounts and how to set savings goals. First, we learned how savings accounts work, how they are insured, and how we can earn interest on our savings. We also explored the different types of savings accounts available; including ABLE Accounts.

Next, we learned about the different types of retirement accounts available and their pros and cons. We also covered the time frame and investments associated with most retirement accounts.

Next, we learned about asset-building, paying special attention to Individual Development Accounts, how they work, and how to find providers in your community.

Next, we estimated how much money we can save each month with the money saving ideas we've been following since Workshop 1.

Then, we created a plan to save money towards one or two goals. Finally, we discussed some additional tips and ideas for saving towards our goals.

How can the topics I learned in this section be helpful for me?

Topic	N/A	How this will be helpful to me:
Different types of savings accounts, including ABLE accounts		
Types of retirement plans & investments		
Asset-building & Individual Development Accounts		
How to save money on a limited income		
Working toward a goal; planning saving in your budget		