Title:
Develop a Savings Plan

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Summary:
There are so many things that we teach our children that keep them on the right path throughout life. How to save money is one of the most important lessons that parents teach their children.

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Article Body:
There are so many things that we teach our children that keep them on the right path throughout life. How to save money is one of the most important lessons that parents teach their children. Teach your children about finances by opening an account and setting money aside. They'll learn about patience, interest and saving.

It's easy to forget, or ignore, the need to save. We all too often are saying that there isn't enough money to put into savings and we'll do it later. But if there isn't enough money to put into savings, is there enough money if there is an emergency. By having a savings plan, you can keep an emergency from destroying your finances.

Savings can be anything from a simple savings account to bonds and retirement plans. You may be saving for emergencies, college, a new home or for retirement. Or even for all of the above! No matter what your goal is, there is a savings plan that will fit your needs. Not all types of savings are going to work for you. You have to find the plan that fits your own personal financial needs.

What makes saving money just a wonderful experience is interest. You aren't just saving your money, your actually letting it grow. Your money is making more money. How does this work?

When you put money in a savings account, certificate of deposit (CD) or money market account, you are basically lending the money to the bank. The bank will use your money to make loans to other customers. They are borrowing money from you and paying you interest, while someone pays them interest on the money they have borrowed from the bank.

Banks charge higher interest rates on loans so that they can pay your interest, plus make their own profits.

Interest can seem like a complicated math problem, but it isn't hard to understand. Most banks will talk about both "rate" and "yield."

For example, a $10,000 CD with a 5% annual interest rate (APR) will also have an annual percentage yield number (APY) that is a higher number. The difference between the APR and the APY depends on how frequently the interest is paid, and in what form.

If the interest is paid annually at a rate of 5%, the $10,000 investment with earn $500. Simply multiply the investment amount by the APR to determine the interest paid. When the interest is paid annually, the rate and yield are the same.

The yield goes up as interest is paid more frequently. The interest begins to earn interest along with the original investment. When the 5% CD is paid twice a year, in six months the interest payment is $250. We figure this by multiplying the original investment by the interest rate for half a year, or 2.5%. The $250 in interest will earn $6.25 in interest over the next six months, adding $256.25 at the next six month mark. Compound interest is starting to take over.

In the first scenario, the CD earned $500 in interest in one year. The rate and yield is at 5%. The second CD earned $506.25. The rate is still at 5%, but the yield has increased to 5.06%. It may not seem like a lot, but over time it keeps building up. When shopping around for savings plans, look at both rates and yields.