

JUNIOR ACHIEVEMENT \$AVE, USA

HIGH SCHOOL GRADES

Parent/Student Financial Literacy Feature



Make Healthy Choices: Earn Interest on Interest

Students of all ages learn by example. One of the best examples we can share with young people is the habit of good health decisions. If we ourselves make good decisions about how we treat our bodies, and share our choices with our children, it's more likely that they will make healthy choices, too.

A good example to share with teens is that by deciding to save instead of spend, we demonstrate our willingness

to forego present satisfaction in exchange for achieving a future goal. We might choose to give up dinners at fancy restaurants to save for a family vacation next summer.

Sometimes, we can combine making healthy choices and saving money. Read the story below with your teen, and discuss how Jeff's father could save nearly \$100,000 simply by making a healthy choice.

Dear Parent/Guardian:

Thank you for downloading this Financial Literacy Feature. We hope the information and activities offered will be helpful in strengthening your family's financial literacy skills.

Activity

Jeff's dad was rushed to the hospital with chest pains. The whole family thought it might be a heart attack, but after a series of tests, the doctors said he was okay, and released him.

(Continued on Page 2.)



"I'm feeling better now," his dad said, "but the doctor told me I need to get more exercise. I've decided that instead of driving to the train station every day, I'm going to walk. It's about a mile, and the doctor said that walking a couple of miles a day might prevent another scary trip to the hospital.

"Besides, while I was in the hospital, I had a chance to do some calculations. I figure that the cost of gas and parking in the public lot is about \$7 a day. If I invest \$35 a week, our family will have a lot of money over the years. I suppose I have another 20 years of working ahead of me, so seven dollars a day will really add up."

"That's a great idea, Dad," said Jeff.

At \$7 a day, his father would save \$154 in a month with 22 work days. In a year, that's \$1,848.

Jeff used an online calculator and found out that if his dad invested that money in a tax-deferred account, such as an Individual Retirement Account (IRA) earning 8% interest a year, he would have:

\$29,000 in 10 years

\$55,000 in 15 years

\$93,000 in 20 years

"How can that be?" asked Jeff's dad. "How can I save \$29,000 in the first 10 years and an additional \$64,000 in the second 10 years? Shouldn't it be the same amount every 10 years?"

"It's because of compound interest, Dad," replied Jeff. "With compound interest, you earn interest on the money you save, and you also earn interest on your accumulated interest. It grows more and more each year."

"Ninety-three thousand dollars is a lot of money, Jeff. That's just the incentive I needed to start exercising. I am determined to do it."

"You know, Dad," smiled Jeff, "there are probably other things our family does that we could cut back on to save money. If we make better decisions, maybe we'll become millionaires!"

Directions: Complete the chart on Page 3. Next to each common household expense, write a suggestion for ways to save money. Then, using your best guess about prices, estimate the monthly savings.

Finally, use this calculator to find out how much Jeff's family would save in 10, 15, and 20 years with compound interest: www.moneychimp.com/calculator/compound_interest_calculator.htm.

Common Household Expense	Way to Cut Costs	Estimated Saving per Month
Cable TV	Order fewer premium stations	\$40
Eating at home		
Eating out		
Transportation		
Clothes for school		
Gifts for friends		
Health and exercise		
Books, magazines, newspapers		
Movies		
Music		
Vacations		
Phone service		
Video games		
Computer, printer, etc.		
Going out with friends		
	Total Monthly savings	



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Junior Achievement gratefully acknowledges The Allstate Foundation for its dedication to the development and implementation of Junior Achievement *Save, USA*.

