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Peak Mastery

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PEAK READINESS ACTIVITY 3e: Savings, Investing, Credit, and Financial Emergencies

If you are disciplined and save a little money each month, you will be able to afford the better things in life.

Exercise on saving money

By saving, you will afford more things because you will EARN interest instead of PAYING interest. For example, if you put away \$100 a month at 6.5% interest, you'll have \$7205.68 at the end of five years. But you've only put in \$6000 of your own money.

Go Find It → *In the Online Course*, you'll find links to calculators for this exercise.

You open a new savings account with \$100. If you deposit \$50 a month and earn 4% interest, how much will you have after 2 years?

Exercise on preparing for retirement

Most people decide, later in life, to retire from the working world. It's a time to relax, spend time with family, pursue your favorite leisure activities, and travel. When you retire and stop working (or work less), you'll need savings to pay for your living expenses and leisure activities. Social Security may provide some income for those older years, but it won't be enough. By the time you retire, it may not be there at all.

Like savings and investing, you should start with a little money now and add a little each month. Over the course of your life it will add up quickly. By the time you retire, you'll have enough to pay your bills and have some fun in those leisure years. But it's best to start now.

Go Find It → *In the Online Course*, you'll find links to calculators for this exercise.

If you want to have \$1,000,000 when you retire, how much will you need to save or invest every month until then? Assume you start with \$250, you retire at age 65, and you make 7% interest on your money.

Exercise on the real cost of credit cards

Credit cards are risky. If you use credit cards to pay for food, clothes, leisure activities, and playthings, you can quickly pile up big bills. When you try to pay those bills, it's difficult because most credit cards have high interest rates and the balance continues to grow. Plus, if you miss payments it can damage your personal credit rating. Then, it will be much harder to get loans for important expenses like a house, car, or an education.

When you add up how much credit cards charge in interest, it's alarming. For example, assume you have made purchases of \$3500 on your credit card and the interest rate is 12%. If you pay the minimum payment each month of \$70, it will take you six and half years to pay it off! You'll pay over \$2000 in interest – in addition to the \$3500 you owe in purchases.

Go Find It → *In the Online Course*, you'll find links to calculators for this exercise.

You make \$6500 in purchases on your credit card, and you pay the minimum each month of \$130 (or 2%). If the interest rate is 16%, how long will you take to pay it off?

How much interest will you pay, in addition to the \$4500 in purchases?

Exercise on saving an emergency fund

Life always has surprises, some of them not so pleasant. What happens if you injure yourself and can't work? Or if your car needs a new transmission? Or if a family member becomes ill and you have to take time off to help them? How will you support yourself?

To be prepared for these surprises, you should plan on saving for an emergency fund. You should have enough in your fund to cover three or four months of living expenses.

Go Find It → *In the Online Course*, you'll find links to calculators for this exercise.

You need to start setting aside savings for an emergency fund. You should have three or four months of living expenses in your fund. How much will you need in your emergency fund?



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