Comparing saving and investing

Students explore the differences between saving and investing and answer questions about which one they'd use to reach different financial goals.

Learning goals

Big idea

People typically save for short-term goals and invest for long-term goals.

Essential questions

- What are some differences between saving and investing?
- What are some long-term goals you can achieve with investing?

Objectives

- Understand the differences between saving and investing
- Explore the different goals saving and investing can help achieve

What students will do

- Explore the differences between saving and investing.
- Determine whether saving or investing would be ideal for reaching different financial goals.

NOTE

Please remember to consider your students' accommodations and special needs to ensure that all students are able to participate in a meaningful way.

KEY INFORMATION

Building block:

Financial habits and norms

Financial knowledge and decision-making skills

Grade level: High school (9–12)

Age range: 13–19

Topic: Save and invest (Investing)

School subject: CTE (Career and technical education), English or language arts, Social studies or history

Teaching strategy: Competency-based learning

Bloom's Taxonomy level: Apply, Analyze

Activity duration: 45–60 minutes

National Standards for Personal Financial Education, 2021
Spending: 12-9
Saving: 12-1
Investing: 12-3, 12-6, 12-12

These standards are cumulative, and topics are not repeated in each grade level. This activity may include information students need to understand before exploring this topic in more detail.

Preparing for this activity

- ☐ While it's not necessary, completing the "Setting a SMART savings goal," "Storing my savings," or "Evaluating savings scenarios" activities first may make this one more meaningful.
- ☐ Print copies of all student materials for each student, or prepare for students to access them electronically.

What you'll need

THIS TEACHER GUIDE

- **Comparing saving and investing** (guide)
  cfpb_building_block_activities_comparing-saving-investing_guide.pdf

STUDENT MATERIALS

- **Comparing saving and investing** (worksheet)
  cfpb_building_block_activities_comparing-saving-investing_worksheet.pdf

Exploring key financial concepts

There are important differences between saving and investing. Generally, people use savings for short-term financial goals such as a vacation or a down payment on a car. They often put their savings in financial products such as savings accounts and certificates of deposit (CDs) because they usually can access the money easily. In addition, almost all deposits at banks and credit unions are insured for up to $250,000 by two federal agencies. The Federal Deposit Insurance Corporation (FDIC) insures bank deposits. The National Credit Union Administration (NCUA) insures credit union deposits. This means that if your bank or credit union fails or goes out of business, the federal government will cover any loss of your deposits up to $250,000.

However, financial returns on savings products usually are relatively low. To reach long-term financial goals that may take five or more years to achieve, some people turn to investing, which may earn a larger financial return. However, investing

NOTE

It's important to emphasize that all investments, even savings products, have some level of risk. These risks include how readily investors can get their money when they need it; how fast their money will grow; whether they can lose some, all, or in some cases, more than their initial investment; and how inflation, taxes, market conditions, and other external factors may affect the value of their investment.

is riskier. These investments aren't insured, and you could lose some or all of the money you invested because of market changes. Understanding the tradeoffs between saving and investing can help you create a financial plan that works for you now and in the future.

TIP

Because financial products, terms, and laws change, students should be encouraged to always look for the most up-to-date information.

Teaching this activity

Whole-class introduction

- Ask students if they know anyone who has saved or invested their money and what they were saving or investing for.
  - Answers may include paying for college, buying a car, or buying a cell phone.
- Read the "Exploring key financial concepts" section to explain some differences between saving and investing.
- Be sure students understand key vocabulary:
  - **Annual return:** The profit or loss on an investment over a one-year period.
  - **Bond:** A type of debt. When you buy a bond, you're lending to the issuer, which may be a government, municipality, or corporation. The issuer promises to pay you a specified rate of interest during the life of the bond and to repay the principal – also known as the bond's face value or par value – when the bond "matures," or comes due after a set period.
  - **Capital gain:** The profit that comes from selling an investment for more than you paid for it.
  - **Certificate of deposit (CD):** A savings tool from a bank or credit union that has a fixed maturity date and a fixed interest rate.
  - **Inflation:** Inflation occurs when the prices of goods and services increase over time.
  - **Invest:** To commit money to earn a financial return; the strategic purchase or sale of assets to produce income or capital gains.
  - **Investment:** Something you spend your money on that you expect will earn a financial return.
  - **Long-term goals:** Goals that can take more than five years to achieve.

TIP

Visit CFPB's financial education glossary at consumerfinance.gov/financial-education-glossary/.

- **Mutual fund:** A company that pools money from many investors and invests the money in securities such as stocks, bonds, and short-term debt. The combined holdings of the mutual fund are known as its portfolio. Investors buy shares in mutual funds. Each share represents an investor's part ownership in the fund and the income it generates.
- **Return:** The profit or loss on an investment.
- **Risk:** Exposure to danger, harm, or loss.
- **Savings:** Money you have set aside in a secure place, such as in a bank account, that you can use for future emergencies or to make specific purchases.
- **Security:** An investment product such as a stock or bond.
- **Short-term goals:** Goals that can take a short time, or up to five years, to reach.
- **Stock:** A type of investment that gives people a share of ownership in a company.

Individual or group work

- Distribute the "Comparing saving and investing" worksheet.
- Students can work individually or in pairs but should complete their own worksheet.
- Ask students to take a few minutes to read the overview in the worksheet.
- Have students review the financial goals in the worksheet and determine whether saving or investing would be the ideal strategy for reaching each goal.
- After selecting either saving or investing, they should explain why they selected that strategy.
- Students will then answer the reflection question.

Wrap-up

- Bring students together and ask them to share their responses and the reasons for their choices.
- If time allows, ask volunteers to share their answers to the reflection question.

Suggested next steps

Consider searching for other CFPB activities that address the topics of saving and investing. Suggested activities include "Investigating investing" and "Discovering the benefits of investing early".

Measuring student learning

Students’ answers on their worksheets and during discussion can give you a sense of their understanding.

This answer guide provides possible answers for the “Comparing saving and investing” worksheet. **Keep in mind that students’ answers may vary.** The important thing is for students to have reasonable justification for their answers.

Answer guide

Financial goal	Save or invest? Why?
Build an emergency fund before the end of the year.	Save: This is a short-term goal; many savings products have low risks and can give you easy access to the money.
Have a down payment for a house in 10 years.	Invest: This is a long-term goal for which the money won’t be needed soon; taking some risk may mean a higher return.
Buy a recently released video game system in 6 months.	Save: This is a short-term goal; many savings products have low risks and can give you easy access to the money.
Open a retirement account to help you retire in 40 years.	Invest: This is a long-term goal for which the money won’t be needed soon; taking some risk may mean a higher return.
Have a down payment for a car next year.	Save: This is a short-term goal; many savings products have low risks and can give you easy access to the money.
Build wealth over your lifetime.	Invest: This is a long-term goal for which the money won’t be needed soon; taking some risk may mean a higher return.

Reflection question

Answers will vary.