

CHAPTER 2

Activity: Individual

⌚ 20 MIN.

Materials: One activity handout per student and access to foundationsU.com/2 (optional)

Objective: The purpose of this activity is to understand the importance of planning ahead and saving for large purchases. Students will experience how a sinking fund works.

STANDARD Saving and Investing Standard 1:

Discuss how saving contributes to financial well-being.

- Describe the advantages and disadvantages of saving for short-, medium-, and long-term goals.

Sinking Fund Savings

Procedure

Hand out the activity. Review the definition of sinking fund and the “How do you eat an elephant?” explanation. Have students work independently. After completing this activity, you may want to direct students to the Budget Builder activity at foundationsU.com/2.

Answer Key

- 1 Describe the advantages of saving for short-, medium-, and long-term goals.
Answers should include: Having cash on hand when you need it for both planned and unplanned expenses; not having to go into debt for purchases or financial emergencies; having the money necessary for college costs and retirement; having an overall sense of financial peace; etc.
- 2 What is the purpose of a sinking fund? *To plan ahead for large purchases or expenses (like car maintenance) in order to avoid going into debt*
- 3 What might be a consequence of not having a sinking fund for large purchases? *Not getting to make the purchase or going into debt*

Sinking Fund Savings ^(1/3)

How do you eat an elephant? One bite at a time.

After you have fully funded your emergency fund, you can start saving for other items. Throughout the year you'll usually have a few big expenses, such as an upcoming vacation, team or club dues, music or athletic equipment, and prom. These things can be budget busters if you don't plan ahead. Use this form to break down those upcoming expenses into bite-sized chunks for your monthly budget.

Sinking Fund: Planning and saving money over time for a large purchase

ITEM	NEEDED	÷	MONTHS	=	BUDGET
A	B		C		D

Directions

Step 1

The Item column (A) lists common big expenses that you might need to plan for. If you have an upcoming expense that is not listed, fill it in as "Other."

Step 2

For the items that apply to you, write how much money you'll need for that expense in the Needed column (B). Then figure out how many months you have to save up for that item, and write that in the Months column (C).

For example, let's say it's January and you want to have \$120 spending money saved for your family vacation in July. You have six months to save.

Step 3

Now, for each item, divide the "Needed" amount by the "Months" you have. Write that in the Budget column (D). So for vacation, \$120 divided by six months is \$20 a month. That's how much you need to save each month to have \$120 in time for vacation. We'll show you how to write savings into your budget in the Budget Builder lesson for Chapter 2. When you're ready, go to foundationsU.com/2 to add your sinking fund savings into your budget.

Using a sinking fund savings approach for large purchases means that, when the time comes, you'll have the cash on hand for large purchases and can avoid going into debt.

Sinking Fund Savings (2/3)

How much cash will you need? How many months do you have? Monthly amount for your student budget

ITEM	NEEDED	÷	MONTHS	=	BUDGET
Homecoming					
School Club					
Sports Fees					
Christmas					
Valentine's Day					
Spring Break					
Anniversary					
Prom					
Other					

Sinking Fund Savings (3/3)

Directions

After completing your sinking fund chart, answer the following questions.

1 Describe the advantages of saving for short-, medium-, and long-term goals.

2 What is the purpose of a sinking fund?

3 What might be a consequence of not having a sinking fund for large purchases?
