



A Tune of Savings with CDs

The Set Up:

Alicia's grandmother will give her \$10,000 if Alicia agrees to find the best savings option for the money and keep it there for at least five years. Alicia and her grandmother review the possibilities. Alicia initially wants to put the money in a savings account at a local bank. Her grandmother doesn't agree with this option because the account offers a very low interest rate, and it would be much too easy for Alicia to take money from the account. Her grandmother favors a certificate of deposit, but Alicia is concerned because the money could be tied up for more than five years. What if there is an emergency and she needs it before then?

The Investigation:

Alicia learns about the following options:

72-Month Certificate of Deposit at 5.6% APY

FDIC insured up to \$100,000.

Interest compounded quarterly.

No minimum requirement.

Fines for early withdrawal:

- If withdrawn within 6 months, the penalty is 6 months' interest.
- If withdrawn 6 months or more before maturity, the penalty is the amount equal to the greater of 6 months' interest or the economic replacement value. Economic replacement value is an estimate of the interest cost the financial institution would incur if it were to replace the certificate of deposit that is withdrawn with another one that has a term that is comparable to the remaining term of the original CD.

36-Month Certificate of Deposit at 5.2% APY

FDIC insured up to \$100,000.

Interest compounded daily.

No minimum requirement.

Fine for early withdrawal is 6 months' interest.

60-Month Certificate of Deposit at 5.4 % APY

FDIC insured up to \$100,000.

Interest compounded monthly.

No minimum requirement.

Fines for early withdrawal:

- If withdrawn within 6 months, the penalty is 3 months' interest.
- If withdrawn between 6 months and one year, the penalty is 6 months' interest.
- If withdrawn 13 months or anytime before maturity, the penalty is the amount equal to the greater of 6 months interest or the economic replacement value.

12-Month Certificate of Deposit at 5% APY

Interest compounded daily.

FDIC insured up to \$100,000

No minimum requirement

If withdrawn prior to maturity the penalty is 3 months' interest.



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Work It Out:

1. Explain APY and why this information is helpful in determining the best savings option?

2. Use the CD calculator at www.bankrate.com/brm/calc/cdc/CertDeposit.asp to calculate the return if Alicia deposits the full \$10,000 in each account.

Saving Option

Return

3. Which account would you recommend? Why?

4. Can you recommend an alternative to placing all \$10,000 in one account that might satisfy both Alicia and her grandmother? Explain why this alternative might be a good option.



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5. Given the savings rate information for a certificate of deposit available to Alicia, time and APY are:
- directly related.
 - inversely related.
 - are equal to each other.
 - are not related at all.
6. There is no penalty for early withdrawal on a certificate of deposit (CD) if:
- the amount of the CD is over \$100,000.
 - the time of the CD is at least 60 months.
 - the bank where the CD is placed is FDIC insured.
 - there is always a penalty for early withdrawal on a CD.
7. Which of the following statements is TRUE, based on the savings rate information available to Alicia?
- Most CDs require a minimum dollar amount.
 - a 60-month CD pays a higher APY than a 36-month CD.
 - Early withdrawal on a 36-month CD will cost the depositor 3 months' interest.
 - CDs in amounts over \$100,000 will be insured by FDIC for the full amount as long as the bank carries FDIC insurance.

Consumer Scene Investigation Grade Sheet CSI 8 - A Tune of Savings with CDs

Competencies: SC.1: Compare the benefits and costs of alternatives in spending.
SI.1: Compare consumer choices for saving and investing.
SI.3: Examine reasons for saving and investing (e.g., time value of money).
SI.4: Compare the risk, return, liquidity, manageability, and tax aspects on investment alternatives.

Objectives: A: Identify the opportunity cost of spending and saving. (SC.1)
B: Recognize financial investments as options for savings. (SI.4)
C: Explain the advantages of compounding. (SI.1)
F: Describe the relationship between financial investment risk and return. (SI.4)
I: Compare the characteristics of several financial investments, including savings accounts, stocks, bonds, mutual funds, and real estate. (SI.5)
K: Compare the features of savings accounts among financial institutions. (SI.1, SI.4, MM.9)
L: Identify the trade-offs related to various financial investment options. (SI.7, SI.8, SI.9)

Answers:

- 1. APY is Annual Percentage Yield and refers to the rate of return earned in the course of one whole year. APY takes compounding into consideration and is expressed as a percentage.*
- 2. \$13,960.82; \$13,092; \$11,688; \$10,534*
- 3. Answers will vary, but students should support their choice using fees, interest rates, and time.*
- 4. Answers will vary.*
- 5. A*
- 6. D*
- 7. B*

Name: _____

Date: _____

Criteria:	4	3	2	1	Total:
APY Explanation	Explanation was correct, complete and thorough.	Explanation was correct and complete.	Explanation was correct.	Explanation was attempted.	
CD Calculations	CD calculations were correct.	One mistake was made in calculations.	Two mistakes were made in calculations.	Three mistakes were made in calculations.	
Recommendation	Recommendation was complete and makes sense to the reader.	Recommendation was complete but lacked persuasion.	Recommendation was mostly complete. Reader had few questions.	Recommendation was incomplete and left the reader with questions.	
Recommendation	Recommendation used the information that was found, calculations and knowledge from class.	Recommendation used the information that was found and the calculations.	Recommendation only used the calculations.	Recommendation was not complete and didn't use appropriate information.	
Alternative recommendation	Recommendation was knowledgeable and appropriate. Excellent recommendation.	Recommendation was appropriate and thought out. Super idea.	Recommendation was usable but not the best choice.	Recommendation was not appropriate and would not meet Alicia's or Grandma's needs.	
				Total:	