

The Inflation/Interest Battle

Student Activity: Saving and Investing

Inflation is the increase in the prices of goods and services over time, which decreases the purchasing power of money. Simply put, next year, \$100 probably will not buy the same amount of goods as it does this year. The U.S. inflation rate is approximately 2% per year.

Our savings grow with interest, but inflation works against its purchasing power. Let us take a look at why it is important for your long-term financial health to make sure your money is growing faster than the inflation rate.

Objective

Understand the costs and benefits of saving and investing.

Activity

Your parents decided to start a college savings account when you were born. Use the *Saving for College Calculator* at tinyurl.com/calccollsave to discover how much they need to save each month to pay for four years of college when you graduate. Input the *Student Information* on the right, into the calculator.

Current age	0
Age at college start	18
Years of college	4
Annual college cost	\$25,000
College cost inflation	0
Current savings	0
Monthly college savings	\$100
Expected rate of return	5%

College Savings Summary			
	Monthly College Savings	Planned Savings	Required Savings
1	\$100	\$	\$100,000
2	\$200	\$	\$100,000
3		\$	\$100,000
4		\$	\$

- Write the calculated results from the top of the *College Savings Summary* chart on line 1 above.
- Will you have enough saved to pay for college? Yes No
- Change the *Monthly College Savings* field to \$200 and enter the result in the chart above. Now will you have enough? Yes No
- Change the *Monthly College Savings* field until the *Planned Savings* field approximately equals the *Required Savings* field. Complete line 3 of the chart above with the numbers you discovered.
- Now, let us see how inflation affects your savings. Change the *College Cost Inflation* field on the calculator to 2%. Write the new *Required Savings* amount on line 4 in the chart above.
- Recalculate the new amount that must be saved by changing the *Monthly College Savings* field until the *Planned Savings* field approximately equals the *Required Savings* field. Complete line 4 of the chart above with the numbers you discovered.
- How much more per month must be saved to have enough for college, including the inflation factor?
\$ _____.

Reflection:

- Are you surprised at the effect inflation has on saving for college?
- How does this affect families saving for college?
- Should the amount you have saved for college affect your decision on the college you attend?