

A Tale of Two Savers

The following case study is about two people who saved. Each earned 10 percent interest. Of course, the interest or rate of return for anyone year can differ greatly.



Ana Gutierrez started saving when she was 22, right out of college. Saving involves an opportunity cost—the best alternative given up. It wasn't easy to save \$2,000 a year then, considering her car loan, car, and rent payments. But Ana was determined to save because her grandmother always said **“it isn't what you make but what you save that determines your wealth.”** So, reluctantly, Ana gave up buying that new car and renting a really nice apartment, and she saved \$2,000 a year. After 12 years, she got tired of the sacrifice, yearning for a brand new red sports car and other luxuries. She didn't touch the money she had already saved because she wanted to be sure she would have money for retirement, which she planned to do at the end of her 65th year. But she quit saving and hit the stores.

Shawn Wright didn't start saving until he was 34. He also graduated from college at 22, but he had done without many things in college, and, now that he had an income, he wanted some of those things. He bought a new car and a very nice wardrobe and took some wonderful trips. But spending his current income involved an opportunity cost. By the time he was 34, Shawn was married, had many responsibilities, and decided he'd better start saving and planning for his financial future. He had also heard that it isn't what you have earned, but what you have saved, that determines your wealth. He figured he had 25 to 30 productive years left in his career. So, with new determination, Shawn saved \$2,000 a year for the next 32 years until he retired at the end of his 65th year.



Which person do you believe had more savings at the end of his/her 65th year?

Let's see what really happened. Using the table on the back of this sheet, "The Growth of Ana's and Shawn's Savings," answer the questions below.

1. How much money had Ana put into savings by age 65?
2. How much money had Shawn put into savings by age 65?
3. How much savings (total wealth) did Ana have at the end of her 65th year?
4. How much savings (total wealth) did Shawn have at the end of his 65th year?
5. In money terms, what were the opportunity cost and benefit for Ana?
6. In money terms, what were the opportunity cost and benefit for Shawn?
7. What are the incentives for saving early? How about an opportunity cost for saving early?
8. What conclusions can you draw from this activity?

The Growth of Ana's and Shawn's Savings

Age	Interest Rate	Ana Gutierrez			Shawn Wright		
		Saved	Interest Earned	Total Saved at the End of the Year	Saved	Interest Earned	Total Saved at the End of the Year
21	10%	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
22	10%	\$2,000.00	\$200.00	\$2,200.00	\$0.00	\$0.00	\$0.00
23	10%	\$2,000.00	\$420.00	\$4,620.00	\$0.00	\$0.00	\$0.00
24	10%	\$2,000.00	\$662.00	\$7,282.00	\$0.00	\$0.00	\$0.00
25	10%	\$2,000.00	\$928.20	\$10,210.20	\$0.00	\$0.00	\$0.00
26	10%	\$2,000.00	\$1,221.02	\$13,431.22	\$0.00	\$0.00	\$0.00
27	10%	\$2,000.00	\$1,543.12	\$16,974.34	\$0.00	\$0.00	\$0.00
28	10%	\$2,000.00	\$1,897.43	\$20,871.78	\$0.00	\$0.00	\$0.00
29	10%	\$2,000.00	\$2,287.18	\$25,158.95	\$0.00	\$0.00	\$0.00
30	10%	\$2,000.00	\$2,715.90	\$29,874.85	\$0.00	\$0.00	\$0.00
31	10%	\$2,000.00	\$3,187.48	\$35,062.33	\$0.00	\$0.00	\$0.00
32	10%	\$2,000.00	\$3,706.23	\$40,768.57	\$0.00	\$0.00	\$0.00
33	10%	\$2,000.00	\$4,276.86	\$47,045.42	\$0.00	\$0.00	\$0.00
34	10%	\$0.00	\$4,704.54	\$51,749.97	\$2,000.00	\$200.00	\$2,200.00
35	10%	\$0.00	\$5,175.00	\$56,924.96	\$2,000.00	\$420.00	\$4,620.00
36	10%	\$0.00	\$5,692.50	\$62,617.46	\$2,000.00	\$662.00	\$7,282.00
37	10%	\$0.00	\$6,261.75	\$68,879.21	\$2,000.00	\$928.20	\$10,210.20
38	10%	\$0.00	\$6,887.92	\$75,767.13	\$2,000.00	\$1,221.02	\$13,431.22
39	10%	\$0.00	\$7,576.71	\$83,343.84	\$2,000.00	\$1,543.12	\$16,974.34
40	10%	\$0.00	\$8,334.38	\$91,678.22	\$2,000.00	\$1,897.43	\$20,871.78
41	10%	\$0.00	\$9,167.82	\$100,846.05	\$2,000.00	\$2,287.18	\$25,158.95
42	10%	\$0.00	\$10,084.60	\$110,930.65	\$2,000.00	\$2,715.90	\$29,874.85
43	10%	\$0.00	\$11,093.06	\$122,023.71	\$2,000.00	\$3,187.48	\$35,062.33
44	10%	\$0.00	\$12,202.37	\$134,226.09	\$2,000.00	\$3,706.23	\$40,768.57
45	10%	\$0.00	\$13,422.61	\$147,648.69	\$2,000.00	\$4,276.86	\$47,045.42
46	10%	\$0.00	\$14,764.87	\$162,413.56	\$2,000.00	\$4,904.54	\$53,949.97
47	10%	\$0.00	\$16,241.36	\$178,654.92	\$2,000.00	\$5,595.00	\$61,544.96
48	10%	\$0.00	\$17,865.49	\$196,520.41	\$2,000.00	\$6,354.50	\$69,899.46
49	10%	\$0.00	\$19,652.04	\$216,172.45	\$2,000.00	\$7,189.95	\$79,089.41
50	10%	\$0.00	\$21,617.25	\$237,789.70	\$2,000.00	\$8,108.94	\$89,198.35
51	10%	\$0.00	\$23,778.97	\$261,568.67	\$2,000.00	\$9,119.83	\$100,318.18
52	10%	\$0.00	\$26,156.87	\$287,725.54	\$2,000.00	\$10,231.82	\$112,550.00
53	10%	\$0.00	\$28,772.55	\$316,498.09	\$2,000.00	\$11,455.00	\$126,005.00
54	10%	\$0.00	\$31,649.81	\$348,147.90	\$2,000.00	\$12,800.50	\$140,805.50
55	10%	\$0.00	\$34,814.79	\$382,962.69	\$2,000.00	\$14,280.55	\$157,086.05
56	10%	\$0.00	\$38,296.27	\$421,258.96	\$2,000.00	\$15,908.60	\$174,994.65
57	10%	\$0.00	\$42,125.90	\$463,384.85	\$2,000.00	\$17,699.47	\$194,694.12
58	10%	\$0.00	\$46,338.49	\$509,723.34	\$2,000.00	\$19,669.41	\$216,363.53
59	10%	\$0.00	\$50,972.33	\$560,695.67	\$2,000.00	\$21,836.35	\$240,199.88
60	10%	\$0.00	\$56,069.57	\$616,765.24	\$2,000.00	\$24,219.99	\$266,419.87
61	10%	\$0.00	\$61,676.52	\$678,441.76	\$2,000.00	\$26,841.99	\$295,261.86
62	10%	\$0.00	\$67,844.18	\$746,285.94	\$2,000.00	\$29,726.19	\$326,988.05
63	10%	\$0.00	\$74,628.59	\$820,914.53	\$2,000.00	\$32,898.80	\$361,886.85
64	10%	\$0.00	\$82,091.45	\$903,005.99	\$2,000.00	\$36,388.68	\$400,275.53
65	10%	\$0.00	\$90,300.60	\$993,306.59	\$2,000.00	\$40,227.55	\$442,503.09