# **Savings and Bank Accounts**



### Quick Write

"I saw a bank that said '24 Hour Banking,' but I don't have that much time."

Stephen Wright, famous writer

Your summer part-time job has allowed you to save \$300, and your grandparents sent \$300 for your birthday. You have soccer gear you want to purchase for \$90. The rest, \$510, you have in your bedroom. Should you feel comfortable with this? Explain why you would consider a bank account at this time. What type of account would you open, savings or checking, and why?

### **The Advantages of Bank Services**

After you graduate from high school, you might get a job and move into your own apartment. Or, if you go to college, you'll probably live in a dormitory or an off-campus apartment.

Most high school graduates are excited about setting out on their own. However, they sometimes don't take time to think enough about the responsibilities that go along with independence. Knowing how to manage your money is one of these responsibilities.

You may already have some savings. You may have a part-time job and receive a regular paycheck. Or perhaps you've saved some of the money that your parents, a guardian, or a relative may have given you on birthdays or other occasions.



### Learn About

- the advantages of bank services
- types of bank services
- how to choose a bank
- how to conduct banking transactions
- electronic banking



To keep your money safe and to conduct financial transactions such as check writing, you'll need to open a bank account.

Courtesy of Konstantin Chagin/Shutterstock

No matter where your money comes from, you'll need a safe place to keep your extra cash. That's where banks come in. Banks help keep the flow of money safe and orderly in society. Without banks, our economy couldn't function.

To keep your money safe and to conduct financial transactions such as check writing, you will need to open a bank account. A bank account is a formal relationship between you and a bank, where the bank keeps your money for you until you need it.

Owning a bank account has several advantages:

- You know your money is safe—if someone breaks into your home, or if you lose your wallet, you won't lose all your money.
- The US government protects the customers of licensed banks—if something happens to the bank, the government will pay you the amount you had deposited in the bank, up to \$250,000.
- You can get your money if you need it.
- You can keep track of how much money you've used and how much you still have.
- You can cash checks, get loans, and perform many other financial transactions more easily than people without bank accounts can.
- You will receive *interest* on the money you have in certain accounts. As you remember from Chapter 1, Lesson 1, interest is money that the bank pays you each month—the interest is a small percentage of the amount you have in your account.
- You will be able to show that you are responsible with your money. This is important, for example, if you want to get a credit card or take out a loan.

### **Types of Bank Services**

Banks offer two main types of accounts: *savings* accounts and *checking* accounts. Banks also offer a number of other financial services, as described below.

## Vocabulary



- bank account
- savings account
- checking account
- check
- debit card
- checkbook register
- balance
- account statement
- automated teller machine (ATM)
- personal identification number (PIN)
- certificate of deposit (CD)
- direct deposit
- loans
- credit cards
- credit
- credit union
- balancing
- reconcile
- electronic banking
- online banking
- electronic funds transfer (EFT)
- pay-by-phone
- electronic check conversion
- prepaid debit card

### **Savings Accounts**

Even before they reach adulthood and financial independence, many people establish savings accounts. A savings account is an account for depositing money that you want to keep. Perhaps your parent or guardian has already created a savings account for you. If you received cash as a gift, someone probably encouraged you to put some of that money into your savings. Or you may have established a savings account so that you could deposit part of your earnings from a part-time job. A big advantage of a savings account is that your bank will pay you interest on the money you deposit. It will even pay interest on the interest, which is called *compound* interest. The money grows by itself if left alone!



Many banks enable you to access your account information online.

Courtesy of Supri Suharjoto/Shutterstock

### **Checking Accounts**

A checking account is a bank account into which you deposit money, and from which you can withdraw money by writing checks or using a debit card. A check is a written order that directs a bank to pay money. A debit card is a card that allows the automatic withdrawal of money you request from your checking account. We will discuss more about debit cards later in this lesson.

A checking account provides a means of storing your money safely and using it to pay bills or buy things.

To open a checking account, bring to the bank some cash or a check that is made out to you. The bank representative who opens

your account will explain the requirements and benefits of the account. Some checking accounts pay interest; others don't. If the checking account offers interest, you may have to keep a minimum amount in your account. Find out what this minimum is from your bank representative. The bank may also charge a monthly fee, which it will deduct from the amount in your account. This may also depend on how much money you keep in the account. The bank representative will ask you to sign a signature card or an electronic pad so that the bank knows what your signature looks like.

When you open your account, the bank will give you some temporary checks. You can use these checks as soon as you've established your account. Within a week or so, you'll receive your own checks. These checks will have your name and address on them. They will also be numbered in sequence.

Included with the checks will be a checkbook register, which is a form on which you keep track of the money you deposit or withdraw. You will write the amount of your first deposit in your checkbook register so that you know how much money you are starting with.

That amount will be your beginning balance, which is *the amount of money after expenses that is left in your checking account*. From that point on, you'll either add to or subtract from that number to get a new balance. If you make a deposit, you'll add to the balance. If you write a check or take out money, you will subtract from it.

As you make each additional deposit or withdrawal, you will make an entry in the checkbook register. You will include the date of the transaction, the person or company to which the payment was made, the check number (if applicable), and the amount involved. Using the current balance as the basis, you'll add or subtract to get your new balance.

### success TIP

Make your entry to your checkbook register immediately after a transaction—or you may forget to do it later!

A checkbook register is useful only if you enter information that's up to date and accurate. A checkbook register is useful only if you make accurate entries. If you keep it up to date, it can help prevent you from writing checks when you do not have enough money in your account to cover them. You do not want a check to be returned for insufficient funds. The bank will charge you a fee for these checks, and the store or payee may refuse to accept any more checks from you.

Once a month, your bank will send you an account statement or *a list of transactions in your checking account over the month*. Through your checkbook register and your statement, you can keep track of how much you deposit in your account and how much you spend. The checkbook register and statement should agree. You'll find more information on how to balance your account later in this lesson.

If you need to know your balance and your statement isn't due to arrive for a while, you may be able to check your balance online. Most banks offer this service. It lets you know instantly how much money the bank says you have in your account. However, if you have written checks that haven't been cashed, you have less money in your account than the bank's record shows. Be careful! The only way to know for sure how much money you have in your account is to keep an accurate, up-to-date record in your checkbook register.

Many banks offer debit cards to their checking account customers. Debit cards are a convenient way to get cash or to pay for things from your checking account. Think of a debit card as a plastic check that you don't have to write.



Debit cards are a convenient way to get cash or pay for things from your checking account.

Courtesy of Jutta Klee/ableimages/Corbis Images

If your checking account doesn't have enough to cover the transaction, the debit card will not work. This is another reason you must keep an accurate record in your checkbook register of how much money you have in your account.

If you need cash when your bank isn't open, or you just want to save time, you can use your debit card to withdraw cash from your account at an automated teller machine (ATM), a 24-hour electronic terminal that lets you bank almost any time to withdraw cash, make deposits, or transfer funds between accounts. You will need your debit card and a personal identification number (PIN), a code you enter to use credit or debit cards to make banking transactions like withdrawing cash, making deposits, or transferring funds between accounts from an ATM. You can access your account from nearly anywhere in the world through ATMs. They are very convenient. However, if you use a card at a bank where you do not have an account, you may be charged a fee of up to several dollars to use their banking services.

#### **Other Bank Services**

Most banks offer other services besides checking and savings accounts. For example, you can rent a safe deposit box, where you can store valuable documents or other items. You can purchase certificates of deposit, which are like savings accounts. A bank certificate of deposit (CD) is a type of bank deposit that typically pays higher rates of interest than a savings account, on the condition that you agree not to withdraw your money for a certain amount of time.



Banks offer many additional services, including certificates of deposit, safe deposit boxes, and credit cards.

Courtesy of Christopher Oates/Shutterstock

Banks also offer a direct deposit service, a payment that is electronically deposited into an individual's account. Using this service, your employer can deposit your paycheck directly into your account. That way, you don't have to worry about making a special trip to the bank—or spending your check before you get home! We will discuss more about direct deposits later in the lesson.

Loans, sums of money borrowed with interest, are one of the most important services that banks offer. Banks lend people money to buy cars, homes, and other things. To get a loan, you have to prove that you can handle your money responsibly. You must have a good credit history, which means that you repay on time the money you owe.

### Minimum Payments

Credit cards often allow you to make a minimum monthly payment. Many people wrongly believe that if they make this minimum payment they are paying down their loan. However, this is not always so—often the minimum payment is less than the interest on the loan for that month. This means that if you pay only the minimum payment, the amount you owe the bank actually goes up! The best way to use a credit card is to pay off the full amount you owe at the end of every billing period, usually each month.

Banks also offer credit cards, cards that represent a promise that the bank will give you credit to buy things. A bank that gives you credit is offering to lend you money. Banks limit the amount of credit they will offer their customers—you can't continue to borrow more and more money. However, if you pay your bills on time, the bank may raise your credit limit.

Because they make money on interest from credit cards, banks advertise them heavily. After you turn 18, you may receive offers for credit cards in the mail. Be careful

about applying for and using these cards. When you use a debit card, you're using money you already have. The bank deducts the amount of your purchase from your checking account. However, using a credit card is like taking out a loan. You are borrowing money from the bank that issued the card. If you don't pay what you owe right away, you'll be charged interest. Credit card interest rates can be quite high. If you let your debt grow and cannot repay the loan, you can run into financial trouble quickly.

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Credit cards can give you a false sense of financial security. Get a credit card only if you are sure you can handle the responsibility.

#### **How to Choose a Bank**

When you choose a bank, you should consider several things:

- You may need to go to your bank a lot, so it should be conveniently located.
- How friendly is the staff? The staff should be willing to explain anything that you don't understand.
- What are the hours? Banks are famous for having short hours (Monday through Friday, 9 a.m. until 3 p.m. used to be common). However, today banks are extending their hours. They are often open in the evenings and on weekends. Make sure the bank is open at times when you'll be able to visit.
- What are the fees? If the bank wants to charge you a monthly fee for maintaining your account, make sure you understand why and how much. Are you comfortable with the reason? If not, shop around for another bank. You may end up back at this bank, but at least you'll know your options.

#### Credit Unions

You may be eligible to join a credit union. A credit union is a not-for-profit bank that is owned by its members, often affiliated with some professional field or organization. It provides members with many of the same services as banks—such as savings and checking accounts, credit cards, and some types of loans. Often the credit union charges lower fees and pays higher interest than a bank does. Check to make sure the credit union you want to join is insured by the US Government's National Credit Union Administration (NCUA).

- What kinds of accounts does the bank offer? Some banks pay interest on checking accounts as well as on savings accounts. This is a good option for some people. However, if you have such an account, the bank may charge a fee if you do not keep a minimum amount of money in it at all times. If you don't have a lot of money to spare, an interest-bearing checking account may not be a good option.
- Does the bank offer online services? If you want to access your account information from your home computer, make sure the bank has such a service. Some banking services, especially savings services, are available only online.
- What is the interest rate? Banks pay different rates of interest on savings and other accounts. Shop around to make sure that your money is earning as much as it can. For example, if a bank pays 3 percent interest and you deposit \$1,000, you will have \$1,030 in the account at the end of the year. If a bank pays 4 percent, you will have 10 dollars more, or \$1,040.
- Finally, make sure the bank has a good reputation. This is especially important for newer banks, such as those that offer only online banking services. Make sure the bank you choose is insured by the US government's Federal Deposit Insurance Corporation (FDIC).

### **How to Conduct Banking Transactions**

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Always write checks in ink. If you make a mistake, do not erase or write over the error. You could initial your mistake and write it correctly, but it's better to tear up the check and start over. (If you do this, be sure to make a note in your checkbook register.) Always make sure you write clearly.

### **Writing a Check**

Although electronic banking has become the preferred way and even a convenient method of purchasing items or accessing your money, there are still occasions where you will find it necessary to write a check. In this next section, we will discussion the actual process of how to properly write a check. This important task must be completed properly; you do not want more money taken out of your bank account than what you have signed for. We will discuss more about electronic banking later in the lesson.

#### Here's how you write a check:

- Check your balance in your checkbook register.
  Make sure you have enough in your account to cover the check you're about to write.
- On the line in the upper-right corner, fill in the date.
- On the line stating "Pay to the order of," fill in the name of the person or company (called the "payee") who will receive your money.
- To the right of the payee line, write the amount of the check in numbers; include both dollars and cents, such as \$12.92. Make sure the dot between the dollars and cents is clear, so someone doesn't think it says \$1,292!



Always write your checks in ink. If you make a mistake, tear up the check and start over.

Courtesy of Anna/Fotolia LLC

- On the line under the payee, write the amount of the check in words. Write the cents as a fraction. You would write \$12.92 as "Twelve and 92/100." Then draw a line all the way to the right, where "dollars" is printed on the check. The bank will compare the number you've written on the previous line and the words you write on this line to make sure it pays the amount that you request.
- On the "For" line at the bottom left, write the reason for the check (for your own information) or the account number that the company to which you're making the payment has assigned you (this is optional).
- At the bottom right, sign the check in the same way you did when you signed the signature card at the bank.

Figure 1.2 is an example of a written check.



#### **Example of a Written Check**

Adapted from Mitchell, N.L. (1999). Leadership Education III: Life Skills. Maxwell Airforce Base, AL: Air Force Reserve Officer Training Corps

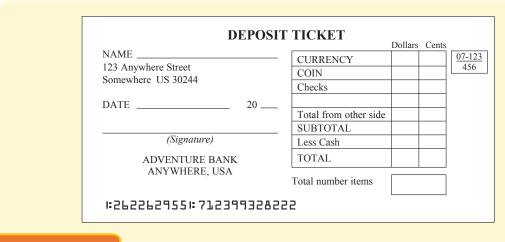
#### Other Information on Your Check

If you've never looked at a check closely, you may be surprised to see that it has other information printed on it. The bank uses this information to process your check. Look again at Figure 1.2. Your check number appears at the top right of the check. The bank's name will appear somewhere on the check. At the bottom of the check are a bank-identifying routing number and your account number. The number on the check that appears to the right of your account number is the check number. The strange-looking numbers at the bottom of the check are designed so a scanner can read them.

### Filling Out a Deposit Slip

You'll have to fill out a deposit slip each time you add money to your checking or savings account (except for direct deposits). The bank usually includes a supply of deposit slips in the back of your checkbook. If you do not have your own deposit slips, you can use the bank's, which are available for checking and savings accounts on a counter in the bank. Fill in the form with your account number, and hand it and the money you are depositing to the teller. The teller may ask for identification when you make a deposit. Figure 1.3 is an example of a deposit slip.

The bank does not immediately credit money that you deposit to your account. It usually takes one working day for the bank to process your transaction. So if you plan to write a big check right after you've made a deposit, make sure the deposit has been credited to your account.



#### FIGURE 1.3

#### Sample Deposit Slip

Adapted from Mitchell, N.L. (1999). *Leadership Education III: Life Skills*. Maxwell Airforce Base, AL: Air Force Reserve Officer Training Corps

### **Balancing a Checkbook**

Each month, the bank will send you a statement. The statement will show your deposits, withdrawals, bank charges, debit transactions, and canceled checks (or pictures of them). Check right away to see if the bank's records and your records agree.

Comparing the bank statement to your checkbook register is called balancing your checkbook. The purpose of balancing is to make sure the deposits and withdrawals, the checks you wrote and payees cashed, and the debit transactions you made are the same on the statement and on the register. In short, it's the best way to ensure that you and the bank agree on how much money is in your account.

You may find an error as you reconcile the account (reconcile means to *verify that your checkbook register balances*). Common problems are:

- Addition or subtraction errors
- Failing to record a deposit or withdrawal
- Failing to record the amount of a check or debit transaction

When you review your monthly statement:

- Some banks may still send you a paper copy of your monthly statement or you may review your monthly statement online.
- Sort the canceled checks (checks that have been cashed) by number. (You will not be able to do this if your bank sends photocopies or just lists the checks.) Match the checks against your checkbook register and against your bank's list of checks cashed.
- Match the deposits you have recorded in your register with the deposits the bank says you made. Do you and your bank agree? If not, figure out why. Did you forget to record a deposit? Did the bank make a mistake? (Not likely, but it can happen.)
- Go through the same matching process for any withdrawals and debit card transactions you made during the month.
- Make sure the bank has charged you the appropriate fees, if any, and that you have recorded them in your register. If your checking account pays you interest, add it to your checkbook register.

Once you have confirmed that all transactions on the statement and all transactions in your register match, you can balance your checkbook.

- Start with the "New Balance" shown on your statement—this is the amount that the bank says you had on the date it prepared your statement.
- Subtract any checks that you've written but that have not been cashed or recorded by the bank as of the date of the statement.
- Subtract any withdrawals or debit card transactions that the bank had not recorded as of the date of your statement.
- Add any deposits you made after the statement was prepared.

The resulting number should be the same as the current balance that appears in your checkbook register. If it does not match, you need to find the source of the mistake.

Try again. If you still can't find the mistake, visit your bank and see if a representative there can help you. Keep your statements and canceled checks in a safe place. They are a financial record—your receipts for purchases made. You may also need them for tax purposes.

### **Electronic Banking**

Electronic banking is now widely and easily used by almost everyone with Internet access in their homes. Electronic banking is a group of services that allows you to obtain account information and manage certain banking transactions.

### **Online Banking**

Online banking is one of two major categories of services offered as part of electronic banking. Online banking is a way to manage many banking transactions on your personal computer or other electronic device by signing on to your bank's website through the Internet. You can log on to your Internet account with a user name and a password. Once there, you can view your checking and savings account activity. You can also set up ways to pay bills and transfer money between accounts.

Some people depend solely on online banking without referring to any other written record of their account balance. To them, it's a matter of trust that the bank will always be right, and there's some peace of mind in that. However, if there is a bank error, a lot of confusion can arise. Why do you think this practice may not be a good idea?

The better practice is to combine online banking with maintaining an accurate checkbook register manually. Here's why. Online banking allows you to verify everything the bank has done with your account daily. This practice allows better management of your account within the checkbook register itself. You can record things like interest and fees daily online, rather than wait for a monthly statement from the bank. You also get to exercise your math skills by checking your record against that of the bank. This skill is a valuable tool as you learn to manage your budget.

All electronic banking services offer these advantages:

- The convenience of keeping track of, or getting to, your money almost anytime, anywhere
- The personal safety of not having to carry a lot of cash
- The time saved by not having to visit a bank, leaving you more time for other things you want to do

Online banking has made keeping records easier because you can log into your account and compare your daily transactions and account balances with those on your bank's website. Most banks are making account statements available this way instead of mailing monthly statements. An online system helps you better understand how to easily fix mistakes and re-balance your checking account on a daily basis. However, if the bank does make an error, an accurate manual checkbook register will help you resolve the issue by contacting the bank and verifying the error with a bank representative.

There are two reasons why online banking and bank statements aren't as accurate as your checkbook register.

First, the checks you write on any given day will take some time to "clear" the bank—in other words, to show up on your daily balance. Therefore, you really may have less money in your account than you believe. If you rely only on your online banking source you may accidently overdraw your account. Your checkbook register, if you maintain it daily, will help you avoid possible complicated problems in balancing your account.

Second, monthly bank statements do not account for your banking activity for the past several days because of printing and mailing delays for the printed statements.

#### **Electronic Funds Transfer**

Another major category of electronic banking is electronic funds transfer (EFT). This is a way to manage many banking transactions on your personal computer or other electronic device by accessing your bank account through the Internet.

Your bank may offer ATM machines that require personal identification numbers (PINs). Some banks use a form of debit card that may require, at the most, your signature or a scan. However, you should be comfortable about the security of such a system before using it.

Let's look at some of the more popular EFT services.

#### **Direct Deposit**

Many people use *direct deposit* to have their paychecks and other recurring income payments recorded into their bank accounts automatically. There's no card to touch. There's no need to carry money to a bank or an ATM and no need to fill out a deposit slip.

You can get direct deposit forms from your employer or at a bank if you want to set up electronic deposit. In either case, there should be some form of brochure or instructional guide for how to fill out the forms correctly.

For direct deposit, you need your checking or savings account number and the bank's routing or routing transit number, which is the code for your employer or income provider to set up the direct payments.

If you're asked for the bank's address to which you are making a deposit, do not be surprised. In a situation where someone needs to contact you, knowing from which branch you service your account is helpful.

In some cases, you will have to submit a voided check or other relevant document in order to set up your direct deposit or withdrawal. This allows for security and verification that all information is entered correctly. The goal is to make sure that money only goes into the correct account.

Once you have decided to set up a direct deposit or automatic withdrawal, you should record in your checkbook register a deposit or withdrawal on the day you know it is being added to or subtracted from your bank account.

### success TIP

Do not get so wrapped up in the receipt or taking money from the machine that you walk or drive off without taking your ATM card back. Most machines will swallow or capture your ATM card if you do not pull it out within a few minutes. This means the ATM will ingest and hold the card until you retrieve it from the bank. However, if the ATM has not captured your card yet, someone can take your card and use it at your expense.

#### **Automated Teller Machines (ATMs)**

Automated teller machines (ATMs) are very convenient. They are used most often with debit cards to conduct deposits and withdrawals from your bank account(s). Withdrawals usually are limited to a daily maximum. You can also use the ATM for transferring funds from one account to another or to pay certain monthly bills.

You must use your PIN number at an ATM to initiate your transaction. When your transaction is complete, you can ask for a summarized detailed receipt.



Automated teller machines (ATMs) are very convenient, but require caution.

Courtesy of Tony Souter/DK Images

Identity theft can also result from someone getting your ATM card. If your ATM/ debit card is stolen and you report it within two days, the Electronic Funds Protection Act protects your losses. Within that time period, you will only be responsible for losses up to \$50. If you wait from two to 60 days to report the loss, you can be responsible for up to \$500. After 60 days, you could be responsible for everything lost on a stolen card.

One other caution: If you use an ATM facility not affiliated with your bank, you can incur a fee. Some banks charge several dollars for transactions made at an ATM by those who are not account holders with that bank or credit union.

#### **Debit Card**

A debit card, described earlier in the lesson, is an electronic transfer function that can be very handy for use at ATMs or making purchases at most stores, on the Internet, or by phone.

A debit card directly deducts money immediately from your bank account. So make sure that you have funds in your account to cover your purchase. The debit card won't work if you fail to have enough money in your account to cover your purchase or cash request. It's like overdrawing your account except you're told before you spend money that your account is too low to cover your request.

There are some other EFT services that you may choose to use at some point.

#### Pay-by-Phone

You may initiate a pay-by-phone system that lets you call your bank with instructions to pay certain bills or to transfer funds between accounts. You must have an agreement with the institution to make such transfers.

#### **Electronic Check Conversion**

You may also do an electronic check conversion that *converts a paper check into an electronic payment in a store*. In the store, when you give your check to a cashier, the check is scanned through an electronic system that transfers funds into the merchant's account, like a debit. You get back a voided check. You should keep the voided check for when you balance your checkbook because the number of your voided check will not likely appear on your monthly banking statement. Instead, the merchant name will appear for an amount of an electronic transfer.

#### **Prepaid Debit Card**

A prepaid debit card, a debit card for use at retail stores or cash withdrawals, is growing in popularity for those whose jobs move them around, or for students living away from home who sometimes do not have checking or savings accounts. This kind of card allows for a strict limit on spending, and can be *preloaded*, or increased in amount by, say, a parent, who can better control a child's spending. Like any such card, the prepaid debit card should be kept safe to prevent someone from using part, or the entire amount on the card if it is lost or stolen.

#### **Conclusion**

However you conduct your banking and other financial transactions, always be conscious of security and privacy.

For online banking, be sure to keep secure your user identification (ID) and password. Keep them secret and stored in a safe place.

If your credit card is lost or stolen, and if you report the loss promptly, your maximum liability is \$50, according to the Fair Credit Billing Act. If someone uses your ATM or debit card without your permission, you are also protected against loss under the Electronic Funds Transfer Act. However, the rules are a little stricter. You must report your loss within two business days in order to keep your losses to no more than \$50. If you don't report the loss until more than two business days have passed, you could lose up to \$500 for an unauthorized ATM use.

Every privilege carries with it a responsibility, and banking services, especially electronic ones, should be considered a privilege, not a necessity, and be used cautiously and responsibly.



Using complete sentences, answer the following questions on a sheet of paper.

- 1. What are the two major types of banking institutions? Explain the differences between them.
- **2.** Why would you choose to have a savings account?
- **3.** Why would you choose to have a checking account?
- **4.** How do you set up a checking account? Be specific.
- **5.** Why is it important to keep a checkbook register accurate and up-to-date?
- **6.** What are the main entries you make on a deposit slip, and why is math important in filling one out?
- 7. What are the main advantages and disadvantages you can think of for using electronic banking?
- **8.** What are three types of electronic banking systems you might choose to use, and why?

#### APPLYING BANKING SKILLS

- **9.** Fill out a sample deposit slip with the following: three checks totaling \$45.00 (from a parent), \$34.40 from selling a card collection to a friend, \$58.00 from a part-time job, and currency amounting to \$34.00. This is only a deposit. You are not withdrawing anything. Check your figures and fill in the TOTAL.
- **10.** Suppose you deposit \$275.00 in your savings account on December 31. Your bank pays 3 percent annual interest on savings accounts. If you do not deposit any more money into the account, what would be the balance on December 31 of the following year?