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Inflation Is a Silent Tax

L3.5.9 · WHAT CASH LOSES

I CAN

calculate the real return on savings after inflation

Savings account rate

Inflation rate

Real return = rate – inflation

What your money actually did

WHERE THE MONEY SAT	NOMINAL RETURN	INFLATION	REAL RETURN
Under a mattress	0%	3%	
Basic savings	0.4%	3%	
High-yield savings	4.5%	3%	
Index fund (long-run average)	10%	3%	

THE UNCOMFORTABLE CONCLUSION

Doing nothing is not neutral. Cash loses value every year, quietly, without a statement telling you.

Answers and talking points

What a good answer looks like, and one question to ask when the pencils go down.

Where the money sat	Nominal	Inflation	Real return
Under a mattress	0%	3%	−3%
Basic savings	0.4%	3%	−2.6%
High-yield savings	4.5%	3%	+1.5%
Index fund (long-run average)	10%	3%	+7%

6-8

The arithmetic, and the one row students get wrong

Real return is **nominal minus inflation**, nothing more complicated. The row that trips people is **basic savings at 0.4%**: it pays interest, the balance goes up, the statement looks fine — and the money still lost **2.6%** of what it could buy. **A rising balance and a falling value happen at the same time**, and that is the single idea this page exists to deliver.

Ask: “Did the basic savings account make money or lose money?” Both answers are defensible, which is exactly why it is worth arguing about.

6-8

Before anyone concludes ‘just buy the index fund’

The 10% is a **long-run average**, not a **yearly promise**, and this page does not show the years it falls. **Cash is a guaranteed small loss; investing is an uncertain larger gain**. A student who leaves with “stocks always win” has taken the wrong lesson off correct numbers.

Ask: “What column is missing from the index fund row?” Risk. Then ask why a worksheet might leave it out.

Want the rest of the unit?

This page is one activity, unchanged, from **Unit 3.5 — Saving and the Time Factor**, a Financial Foundations™ unit of 10 to 12 lessons with teacher scripts, family letters and a unit checkpoint. For a free five-day money game your students can play in a browser, try **The \$100 Week™**. Everything is at wealthwisekids.org.