Video 1 - **Get a Financial Life**

VIDEO SUMMARY

This video introduces students to some rules or key components of financial health, along with some basic financial vocabulary. The students learn that how they manage their financial lives will determine their lifestyle, both now and in the future. The video introduces key vocabulary and an important rule – **spend less than you earn** – and emphasizes the idea that no matter how much income people earn, they still must make choices about how to allocate that income among many competing uses. Many young people think they aren't old enough or don't earn enough to have to worry about saving for the future. This simply isn't true. Compound interest is a powerful financial tool. The earlier you start investing, the more time your money has to grow – and, the more time your money has to grow, the greater the rewards.

It is important to achieve financial literacy early in life.

Being financially literate is all about empowering yourself. But it also requires a measure of self-discipline and understanding what it takes to build a solid foundation for a successful financial future.

- Develop good work habits.
- Think before you spend.
- Spend less than you make.
- Be careful about the use of credit.
- Set long-term financial goals.

Learn the sound financial management skills now that will lead to a more successful life later.

Lesson 1.1 - **What Is a Financial Life?**

BACKGROUND INFORMATION

Everyone has a financial life, but some have better financial lives than others. Understanding how to manage personal finances is a skill that can help people ensure they are in control of their finances and that their financial lives are successful. The tools of financial literacy are not important just for people who have a lot of money or for older people.

Although financial literacy is the key to obtaining the type of lifestyles we want, now and in the future, statistics show that financial *illiteracy* in the United States is high. From 1992 to 2000, Americans' disposable personal income rose by 47 percent, but spending rose by 61 percent. In that same period, the overall personal savings rate fell from nearly 6 percent to zero. Half of all Americans today are living "paycheck-to-paycheck." Fifty percent of all adults have not started saving for retirement. For many Americans, unpaid credit-card balances exceed the balances in their 401(k) (a retirement plan, named for the section of the Internal Revenue Code that established it, that allows employees to save for their own retirement). These are but a few of the statistics that point out the lack of financial literacy among the adult population.

Education is necessary to alleviate this illiteracy problem – and evidence suggests that this education must begin with young people. Young people aged 12 to 19 spent $175 billion in 2003, and only 21 percent of them anticipated spending less in 2004. In spending these sums, many young people relied heavily on credit. A Teenage Research Unlimited study found that 32 percent of 18- and 19-year-olds have credit cards in their own names. But many of them handle credit poorly. Being financially literate involves having a basic understanding of banks and the banking system, financial markets, credit and credit cards, and tax laws. It also requires applying budgeting skills to everyday life. Financial literacy isn't as difficult as abstract science, but it does require budgeting skills that don't come naturally to many people. To combat financial illiteracy among youth, educators must teach young people the things they need to know to develop a healthy financial life.

REFERENCES

1. Virginia Credit Union League. *Financial Literacy Statistics: The Need for Financial Education Is Real. The Statistics Speak for Themselves! 2002*. Published online at http://www.vacul.org/fin_lit/stats.htm.

2. Teenage Research Unlimited, *Teens Spent $175 Billion in 2003*, published online at http://www.teenresearch.com/PRview.cfm?edit_id=168.

VOCABULARY

Financial literacy – basic financial knowledge, including an understanding of banks and the banking system, financial markets, credit and credit cards, and tax laws, as well as the ability to apply this knowledge in making decisions about how to spend, earn or save money today to build wealth for tomorrow

Net worth – a person's assets, or what a person owns, minus a person's liabilities, or what a person owes

Saving – income not spent on current consumption or taxes

Spending – using income for current consumption

Wealth – the stock of assets or resources that have economic value – that is, that can produce income in the future. Note that, broadly speaking, many abilities – academic, athletic, creative, social, etc. –

can be harnessed to produce future income and, hence, are also forms of wealth. Students with these abilities are *potentially* wealthy even if they cannot afford to buy the latest electronic device today. To translate this *potential* into *actual* income-producing wealth, and then to manage that wealth, requires financial literacy.

MATERIALS

- ✓ Visuals 1.1.1, 1.1.2 and 1.1.3
- ✓ One copy of Activity 1.1.1 for each student
- ✓ Enough copies of Activity 1.1.2, cut apart, to provide one card for each group of 3-4 students

PROCEDURE

Before viewing the video:

1. Ask the students if they know of any superstar athletes or entertainers who lost fortunes because they didn't know how to manage their money. ***Answers will vary.***

2. Tell the students that they are going to view a video titled *Get a Financial Life*. It is the first in a series titled *Financing Your Future*. This video and the others in the series introduce some topics about financial literacy.

3. Discuss the following:

A. What does "having a financial life" mean? ***Answers might include keeping track of your current spending, saving some money, or planning for life after graduation – for instance, figuring out a strategy to pay for additional schooling by taking an after-school job, or studying hard or participating in athletics in hopes of securing a scholarship.***

B. How many students in the class think the idea of a financial life applies to teenagers, and why? ***Some of the students may respond that the idea of a financial life doesn't apply because teenagers are too young. Some may respond only as spenders or consumers, while others may already see the connection between what they buy and how those purchases are paid for.***

C. Why should young people care about having a financial life? ***Answers will vary.*** (If the discussion lags, the teacher might ask what the students expect – or hope – to be doing in five years and what they are doing now to make sure they realize their expectations.)

D. How would you describe wealth or someone who is wealthy? ***Students will likely respond in terms of having a lot of money or having a lot of expensive things; education and good health are also forms of wealth since, like financial wealth, they can be important determinants of income.***

4. Display Visual 1.1.1 and explain that the statements on the visual relate to financial topics. Ask the students to record their responses to the statements on a sheet of paper or in their notebooks. Explain that the students will discuss their responses after they view the video.

5. Distribute one copy of Activity 1.1.1 to each student. Explain that this is a list of financial terms. Encourage the students to take notes on the handout for later discussion.

6. Show the students Video 1.

After viewing Video 1:

7. Put a piece of paper over Visual 1.1.2 on the overhead. For each, uncover and read the statement, then uncover and discuss the correct response with the students.

- **Statement 1:** Spending is a sign of wealth. ***False***

Why isn't spending necessarily a sign of wealth? ***Just because you have many things – your closet is full of clothes, for instance – doesn't mean that you are wealthy. Your bank account may be empty.***

- **Statement 2:** People who regularly

spend less than they earn are more likely to become wealthy than those who regularly spend more than they earn. ***True***

How do people who regularly spend less than they earn become wealthy? ***They may do this by placing the income they save in various types of financial investments - savings accounts, certificates of deposit, stocks and bonds. All of these financial investments provide returns.***

- **Statement 3:** People who earn modest amounts of income can think seriously about saving for the future. ***True***

Why should those who earn modest amounts of income think about saving? ***Everyone who wants a healthy financial future has to think about saving. Saving isn't just for those who earn large amounts of income.***

- **Statement 4:** You don't have to worry about money when you are young. ***False***

Why should young people be concerned about money? ***The earlier people start saving, the better chance they have of becoming wealthy in the future; choices about the form of investing will determine how quickly wealth grows.***

- **Statement 5:** Those who buy very expensive things always have more wealth than those who buy less expensive things. ***False***

Why don't people who buy expensive things necessarily have more wealth than those who buy less expensive things? ***People who buy expensive items may start out with more wealth, but people who buy less expensive items retain more of their wealth. Bulging bank accounts are better indicators of wealth than bulging closets. Saving, and eventually paying, for college or technical training will probably put you on the road to financial security faster than saving and paying for an expensive car.***

- **Statement 6:** You can't spend money when your bank account is empty. ***False***

How can someone whose bank account is empty continue to make purchases? ***Answers may include borrowing from friends, buying on credit and writing bad checks.***

- **Statement 7:** There are no consequences to spending more money than you have. ***False***

What are the consequences of borrowing from friends, buying on credit or writing bad checks? ***Answers will vary, but could include problems with friends, high interest payments or legal problems.***

8. Explain to the students that some spending does not satisfy immediate wants and may actually be an investment. If a student invests a sum of money in a lawnmower, the earnings from a lawnmowing business may exceed the interest on the same sum had it been placed in a savings account. However, for the earnings from the lawnmower to represent a higher return, they will have to cover the cost of the lawnmower and its maintenance less its resale value. The actual outcome will depend on many factors, including the student's mowing and marketing skills, competition from other providers of lawnmowing services and the weather – if there is a drought, neither grass nor earnings will grow.

9. Divide the class into four groups. Distribute a different card from Activity 1.1.2 to each group. Explain that the students will be given at least 10 minutes within their groups to do the following:

A. Read the information on the card

B. Discuss whether the saving and investment habits and strategies demonstrated by the person or family described on the card suggest they will accumulate wealth, and why.

C. List factors that are mentioned that add to wealth and that detract from wealth.

D. Consider some factors not spelled out in the example that might cause the group to change its opinion.

E. Summarize their findings and pick someone to make their group's report.

10. After the groups have completed the tasks in step 9, have each group's representative read the group's card to the class and report the group's findings. It is important to note that while at first glance the information presented on the cards may seem to clearly suggest good or bad financial outcomes, financial behavior is complex. The point of this activity is to encourage the students to think through the potential consequences of these various behaviors. Ensure that the students recognize the points listed below for each scenario.

- Tony and Lara Messina: ***Tony and Lara Messina demonstrate good saving and investment habits and strategies: They spend less than they earn, have saved regularly for 20 years, and have a number of financial investments. They have probably increased their wealth steadily over the years. However, they may have lost money on their IRA investments if those investments were primarily in high-tech stocks in the year 2000. Alternatively, if they were too conservative in their college fund investments, growth in the cost of college may have outpaced the earnings rate on those investments.***

- John and Connie Welsh: ***John and Connie Welsh don't appear to have good saving and investment habits and strategies: They spend a lot, and they have a lot of debt. However, John studied a long time to enter a demanding profession that commands a high income. It is not clear how much longer the couple has until their mortgage is paid off, at which time they will own a substantial asset.***

- Susan Lagran: ***Susan Lagran is financially responsible. She saves regularly and spends less than she earns. Although she may never be wealthy, she is unlikely to get into serious trouble with debt. Furthermore, the financial and educational example she has set for her children may help them move up the wealth ladder.***

- Pat Williams: ***Pat Williams does not appear to have good saving and investment habits and strategies even while earning a good salary. Pat spends a lot, puts all purchases on a credit card, and doesn't see the reason for saving while still young. Pat is missing out on some important saving opportunities. However, it should be noted that Pat took a demanding academic path in college, a path that has good job prospects. Note, too, that it is not the act of putting purchases on a credit card that is the bad financial habit. Bad habits include purchasing more than you can afford, not paying off your entire credit card balance every month, and incurring steep interest charges. The scenario does not indicate if Pat pays the entire balance every month.***

11. After all the groups have reported, ask the students what important rules they should follow as they work on their financial lives. ***Spend less than you earn, have a budget, make wise investments, and get an education.***

12. Display Visual 1.1.3 and explain that these are some statistics about millionaires in the United States, taken from *The Millionaire Next Door* by Thomas J. Stanley and William D. Danko (Atlanta: Longstreet Press, 1996). Ask the students if they find any of these statistics surprising. ***Answers will vary.*** Point out that the millionaires observed the important rules the students identified, and as a result they have achieved their financial goal of being millionaires.

Visual 1.1.1 - Statements About Wealth-True or False?

Please respond "True" or "False" to each of the following statements.

1. **Spending is a sign of wealth.**
2. **People who regularly spend less than they earn are more likely to become wealthy than those who regularly spend more than they earn.**
3. **People who earn modest amounts of income can think seriously about saving for the future.**
4. **You don't have to worry about money when you are young.**
5. **Those who buy very expensive things always have more wealth than those who buy less expensive things.**
6. **You can't spend money when your bank account is empty.**
7. **There are no consequences to spending more money than you have.**

Visual 1.1.2 - Statements About Wealth-True or False?

Please respond "True" or "False" to each of the following statements.

1. **Spending is a sign of wealth.** ***False***

2. **People who regularly spend less than they earn are more likely to become wealthy than those who regularly spend more than they earn.** ***True***

3. **People who earn modest amounts of income can think seriously about saving for the future.** ***True***

4. **You don't have to worry about money when you are young.** ***False***

5. **Those who buy very expensive things always have more wealth than those who buy less expensive things.** ***False***

6. **You can't spend money when your bank account is empty.** ***False***

7. **There are no consequences to spending more money than you have.** ***False***

Visual 1.1.3 - Who's Going to be a Millionaire?

In 2004, 8.2 million U.S. households had a net worth of more than $1 million, excluding the value of their primary residences. That is a 33 percent increase over the previous year.

(TNS Financial Services)

Visual 1.1.3 - (continued) Who's Going to be a Millionaire?

In research conducted about millionaires in the U.S., the authors of the book *The Millionaire Next Door* learned the following:

1. **Most millionaires are college graduates.**
2. **Only 19 percent of millionaires received money from a trust fund or estate.**
3. **Most millionaires drive Fords, Chryslers or Chevrolets.**
4. **Most millionaires wear inexpensive clothes.**
5. **Few millionaires lease cars.**
6. **Most millionaires are homeowners.**
7. **Only 17 percent of millionaires attended a private elementary or high school.**

Visual 1.1.3 - (continued) Who's Going to be a Millionaire?

If you want to be a millionaire:

1. **Get an education.**

2. **Spend less than you earn.**

3. **Create a budget that includes saving and financial investment.**

Activity 1.1.1 - **Vocabulary**

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As you view the video, consider this question:
Why should you care about your financial life?

Activity 1.1.2 - Financial Scenarios

Tony and Lara Messina

Tony Messina is 42 years old. He is a mechanic who earns $75,000 a year. He and his wife, Lara, have been married for 20 years. They have three children. Tony began placing the maximum allowed in an individual retirement account (IRA) when he was 22, and has continued doing this every year since. When their children were born, Tony and Lara started saving 5% of Tony's earnings before taxes in money market funds for their children's college educations. Lara took evening classes at the community college on finance and investment and manages the family's money. At Lara's suggestion, Tony took advantage of additional tax-deferred saving opportunities offered by his company whenever they were available. He still takes advantage of these options – currently placing an additional 10% from each paycheck in one of these accounts. The family lives in a three-bedroom suburban home, with a monthly mortgage payment of $1,150. They have two cars, a 1999 Ford Taurus sedan and a 1997 Chrysler Town and Country minivan. When the children started high school, Lara returned to work part-time and set up her own IRA to which she contributes the maximum allowed. She now earns $20,000 a year. Lara and Tony have always lived on a budget.

John and Connie Welsh

John Welsh is 42-year-old doctor – a specialist. He earns $350,000 per year. He lives in an affluent suburb of a large U.S. city. He and his wife, Connie, have been married for 14 years. They have a large home valued at nearly $1.5 million. Their house payment is $5,000 per month. They are still making monthly payments on John's loans for medical school. Their two children attend exclusive private schools, which costs nearly $2,000 a month. John drives a Mercedes-Benz luxury sedan, and Connie drives a Lexus SUV. They pay nearly $1,200 a month to lease the two cars.

John says that he earns enough money that the family shouldn't have to worry about a budget. He works nearly 70 hours a week, which is why their family vacations are so important. Last year, they went on a two-week Caribbean cruise. They aren't really sure, but they think they spent about $10,000 on the vacation. This year, they will be spending two weeks in Hawaii. While they are away, their kitchen will be remodeled. They have received an estimate of $50,000 for the work.

Activity 1.1.2 - (continued) **Financial Scenarios**

Susan Lagran

Susan Lagran is a single mom with three children who struggles financially. She teaches fifth grade and earns $52,000 a year. She receives child support, but has learned that she needs to have a budget to know how much money is coming in and where it is going if she and the children are going to survive. She has only one credit card, which she uses only for emergencies. She took the proceeds from the sale of the house she and her husband had shared and bought a smaller home near the school where she teaches. She and the children can walk to school. She has a 10-year-old Chevrolet Lumina sedan. She is paying into the state teachers' pension fund, but she also contributes annually to an individual retirement account (IRA). Her state has an education savings program to promote saving for children to attend college. She has an account for each child, and she deposits a portion of the child-support payments in the accounts each month. She has learned to buy clothing for herself and her children at consignment shops and is frugal about other aspects of their spending, as well. Her goal is to be able to assist each child with his or her post-secondary education.

Pat Williams

Two years ago 22-year-old Pat Williams graduated from college with a degree in chemical engineering and took a job paying $49,000 a year, plus bonuses. Annual bonuses averaged $10,000, and annual raises were 6% and 7%, exceeding Pat's wildest expectations!

Pat rented an apartment for $650 a month, bought a $2,500 big-screen television with 12 months free financing, and spent $950 on a new couch and love seat to replace the well-worn college furniture. The 1997 Toyota Camry from college will soon be replaced with a new car.

Pat enrolled in the company's savings plan but decided against additional financial investments. Pat wants to have some fun now and thinks that saving is highly overrated when you're young, that there is plenty of time to save after you get married and have kids. Pat is planning a scuba diving vacation in the Caribbean and will purchase new equipment using a credit card, and will use the credit card for most of the other purchases, as well.