National Council on Economic Education

Financing Your Future

Financing Your Future

Why is K-12 financial education so important?

- More than ever there is a need for our citizens to have at least a basic knowledge of economics and financial management.
- It’s at the basis of everything we do
- If people cannot make informed and sound personal finance decisions, how are they to make well-informed and sound public policy decisions?

Financing Your Future

Why is K-12 financial education so important?

- Americans have approximately $1 trillion in revolving credit card debt.

  - half make the minimum monthly payment.

- Nationally, those under 25 are the fastest-growing age group filing for personal bankruptcy.

Financing Your Future

- Personal Finance Video Series on DVD
- Developed by NCEE
- Funded by the Citigroup Foundation

Financing Your Future

- Aimed primarily at High School Students
- Helps students develop sound financial life skills
- Illustrates how sound choices can

  - Build financial success and

  - Lead to a more satisfying life

Financing Your Future

The Teacher's Guide includes:

- 15 lessons – 3 for each of the 5 videos
- Tables of Correlation with
  - NCEE Economics Standards
  - Jump$tart Personal Finance Standards,
  - Voluntary National Economic Standards
  - National Council of Teachers of Mathematics Standards
- A glossary of terms
- Pre- & post-test questions for classroom use

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- The first lesson for each video includes a short true/false and a short activity
- The remaining two lessons feature role plays and group work to develop content introduced in the videos.

A Correlation of the Lessons with the *Voluntary National Content Standards in Economics*

	Lesson Unit														
Content Standards	**1.1**	**1.2**	**1.3**	**2.1**	**2.2**	**2.3**	**3.1**	**3.2**	**3.3**	**4.1**	**4.2**	**4.3**	**5.1**	**5.2**	**5.3**
1. Scarcity	X	X	X	X	X	X									
2. Marginal costs/marginal benefits				X	X	X									
3. Allocation of goods and services															
4. Role of incentives															
5. Gains from trade															
6. Specialization and trade															
7. Markets; price and quantity determination															
8. Role of price in market System															
9. Benefits of competition															
10. Role of economic institutions							X	X	X	X	X	X	X	X	X
11. Role of money							X	X	X						
12. Role of interest rates										X	X	X			
13. Role of resources in determining income				X	X	X									
14. Profit and entrepreneur															
15. Growth															
16. Role of government															
17. Costs of government policies															
18. Circular flow; interdependence															
19. Unemployment and inflation					X	X									
20. Monetary and fiscal policy															

A Correlation of the Lessons with the *Principles and Standards for School Mathematics*

	Lesson Unit														
Content Standards	**1.1**	**1.2**	**1.3**	**2.1**	**2.2**	**2.3**	**3.1**	**3.2**	**3.3**	**4.1**	**4.2**	**4.3**	**5.1**	**5.2**	**5.3**
1. Number and operations										X	X	X		X	X
2. Algebra										X	X	X		X	X
3. Geometry															
4. Measurement															
5. Data analysis and probability				X	X	X									
6. Problem solving										X	X	X		X	X
7. Reasoning and proof															
8. Communication															
9. Connections															
10. Representation															

A Correlation of the Lessons with the *National Standards in Personal Finance*

	Lesson Unit														
Content Standards	**1.1**	**1.2**	**1.3**	**2.1**	**2.2**	**2.3**	**3.1**	**3.2**	**3.3**	**4.1**	**4.2**	**4.3**	**5.1**	**5.2**	**5.3**
1. Income	X			X	X	X									
2. Money management		X												X	
3. Spending and credit			X				X	X	X	X	X	X			
4. Saving and investing			X				X						X	X	X

Video Summaries

Financing Your Future

Video 1 – Get a Financial Life

- Introduces basic vocabulary and key concepts such as wealth building, savings and an important rule

“Spend less than you earn”

Financing Your Future

Video 2 – Get Smart

Decisions Have Consequences

- Covers trade-offs and opportunity costs related to decisions, both

  small, *e.g., “What to wear?”* and

  large, *e.g., “How much time and income to devote to investing in one’s own human capital?”*

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Video 3 – Get Banked

The Banking Advantage

- Illustrates how vital it is to have a banking relationship
- Reveals the surprisingly high cost of being "unbanked"
- Warns of the pitfals of frequenting pay-day lending and check-cashing establishments

Financing Your Future

Video 4 – Get the Credit You Deserve

- Demystifies credit and debt
- Shows that smart decision-making can enable a more fulfilling life
- Discusses APR calculations and credit scores in detail

Financing Your Future

Video 5 – Get a Financial Plan

- Stresses the importance of budgeting and planning, saving early and often
- Discusses

  - compound interest
  - “paying yourself first”
  - various investment instruments
  - risk tolerance

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.**

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.

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***

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.

Activity 1.2.1- Setting Financial Goals

Item to Buy or Accomplish	Short-Term Goal?	Medium-Term Goal?	Long-Term Goal?

Visual 1.3.1 - Income and Expenditures Log

Item	Date	Expenditures	Income
Filled car with gas	1/1/06	$28.73	
Paycheck	1/6/06		$79.36

Activity 1.3.2 - Categories

Category	Total Amount
Food (snacks, lunches, carry-out, delivery, meals in restaurants, vending machines and so on)	
Entertainment (movies at the theatre, movie rentals, concerts, video arcade, sporting events, parties and so on)	
Clothes and other personal items (makeup, cologne and so on)	
Car (gasoline, repairs, insurance and so on)	
Other transportation (bus, subway, cab)	
School-related expenses (notebooks, pens, other supplies; yearbook, ring and other items)	
Deposits to savings accounts	
Books, compact discs, DVDs, sports equipment, video games and so on	
Miscellaneous	

Video 2 - Get Smart

VIDEO SUMMARY

This video discusses trade-offs and opportunity costs related to both small decisions, such as what to wear, and large ones, such as how much time and income people should invest in their own human capital. Because there are not enough resources to satisfy our wants, we must make choices. The range of choices over what to do with our spending and saving has increased dramatically over the past decade. When analyzing such decisions, it is important for people to devote the largest amount of their time to the analysis of decisions that have the greatest consequences. In the video, a problem-solving model is introduced. Called PACED, the model helps the students work through five necessary steps to make an informed decision:

Problem	Identify the problem.
Alternatives	List the alternatives.
Criteria	List the criteria that are important in making the final decision.
Evaluate	Evaluate the alternatives using the criteria.
Decide	Make a decision.

Another important concept is investment in human capital. Discussion of this concept stresses the link between education and income. Using the PACED model, the students explore the costs and benefits of going to college and examine the long-term effects of an investment in a college education. The students work through a decision about what field of study they might choose, bearing in mind the skills it may help develop and demand in the market for those skills.

When they begin to earn an income, the students will need a plan to gain control of their financial lives if they are to achieve their short-, medium- and long-term goals. The plan should include the students setting up a budget that first pays them for long-term savings, then covers major expenses such as shelter, food, clothes, transportation and utilities, and, finally, allocates income for discretionary spending. Budgets need to be written down, reviewed periodically and revised to reflect changes in goals and life circumstances. By making and living within a plan, we gain firmer financial control and increase the range of choices in our lives.

Activity 2.1.1 - Personal Resources and Human Capital Survey

Time List your major activities for a normal school day, accounting for 24 hours of your time.	Income List the sources of your income, not the amounts.	Personal Energy Rate yourself on a scale of 1-10 for these major contributors to energy: nutrition, sleep and exercise.	Skills, Talents & Abilities List 15 skills you have now that would make you employable today.

Activity 2.1.2 - Decision-Making Grid

Problem: ____

Alternatives/Criteria					

Circle your best alternative. Explain your reasons.

What is your opportunity cost?

Activity 2.1.3 - Solve the Problem

For each of the following problems, construct a decision grid that uses all five steps.

A. Bill and Sandy want to go to band camp, which is held during spring break. Each of them needs $300, and they think they could earn the money efficiently if they work together. After a brainstorming session, they decide that they will either set up a cleaning service or sell cleaning products door-to-door. Both of them have to be concerned about not working so much that their schoolwork will suffer, because they are in the running for some scholarships. Bill also performs with a musical group, which has rehearsals once a week. Bill and Sandy figure they could charge $10 per hour, per person for cleaning and use the tools and products that people already have in their homes. They are also counting on repeat customers with a regular schedule. They expect they each will be able to work 15 hours per week if they choose this arrangement. Alternatively, by selling the new Super Duper cleaning products door-to-door, Bill and Sandy will profit $5 for each bottle they sell. The bottles cost $12 each and come in a case of 25. They have to purchase the products a case at a time, and they have to pay within 10 days of receipt of the case. They aren't sure how many bottles of cleaning products they will be able to sell. What should they do?

B. Jennifer has decided to buy a car. She has saved $6,800. After two weeks of research, she has narrowed her selections down to three vehicles. One of these is a Volkswagen Bug that is three years old and has 78,000 miles on it. It is lime green, which is not her favorite color. The salesman told her the price is $6,000. The VW, which has a standard transmission, also gets 30 miles per gallon and has air conditioning and a radio/tape player. Another choice is an awesome Pontiac Firebird with 42,000 miles that gets 17 miles per gallon. It has an incredible sound system with a CD player. The Firebird costs $7,200. Last is a Chevy Cavalier with 56,000 miles, which gets 23 mpg. It has air conditioning and a radio/tape deck. The Chevy costs $6,500. After she drove the three cars Jennifer was really impressed with the way the Firebird handled well on dry roads. She thought the other two were OK, but a little sluggish compared with the Firebird. Since she lives in the snow-and-ice belt, Jennifer has to be concerned about how well the car handles under wintry conditions. Jennifer wants to be able to drive her friends to games and concerts to pay them back for all the times they have given her rides. Her money for gas and insurance is limited because she cannot have a job during the fall and winter sports seasons.

Visual 2.2.2 - Median Annual Income, by Level of Education, 1990-2001

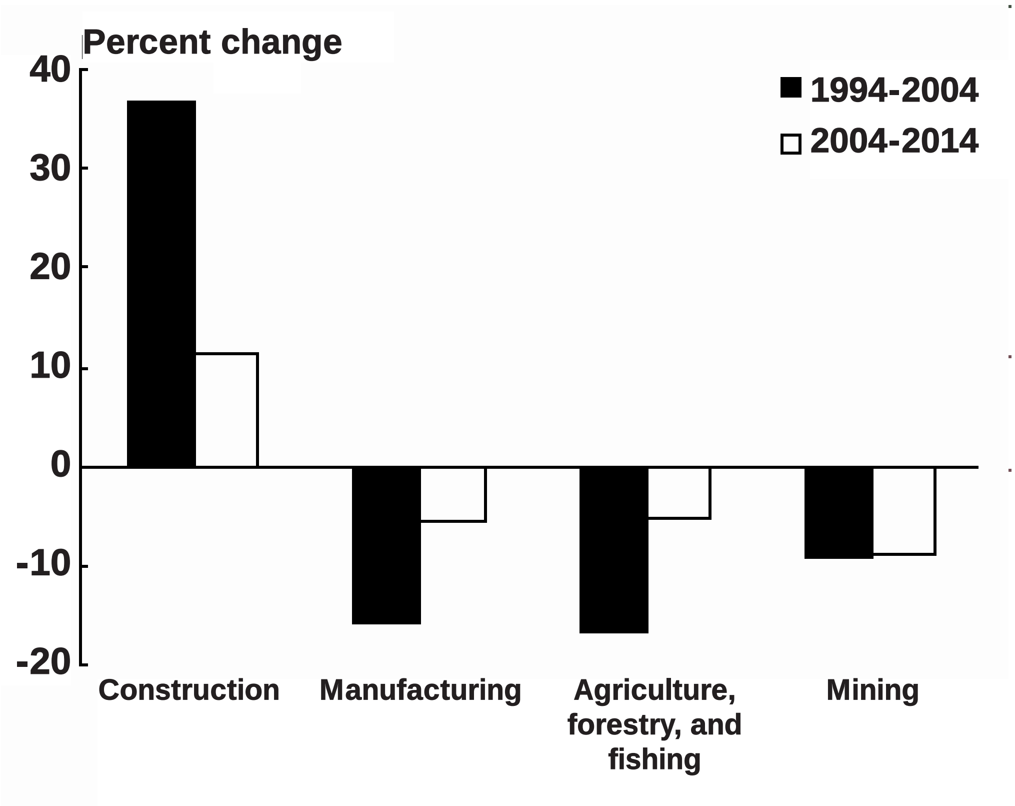
	Elementary/secondary			College					
Sex and year	Less than 9th grade	9th to 12th grade, no completion[1]	High school completion (includes equivalency)[2]	Some college, no degree[3]	Associate's degree[4]	Bachelor's[5]	Master's[4]	Professional[4]	Doctorate[4]
Men									
1990	$17,394	$20,902	$26,653	$31,734	-	$39,328	-	-	-
1991	17,623	21,402	26,779	31,663	$33,817	40,906	$49,734	$73,996	$57,187
1992	17,294	21,274	27,280	32,103	$33,433	41,355	$49,973	$76,220	$57,418
1993	16,863	21,752	27,370	32,077	33,690	42,757	51,867	80,549	63,149
1994	17,532	22,048	28,037	32,279	35,794	43,663	53,500	75,009	61,921
1995	18,354	22,185	29,510	33,883	35,201	45,266	55,216	79,667	65,336
1996	17,962	22,717	30,709	34,845	37,131	45,846	60,508	85,963	71,227
1997	19,291	24,726	31,215	35,945	38,022	48,616	61,690	85,011	76,234
1998	19,380	23,958	31,477	36,934	40,274	51,405	62,244	94,737	75,078
1999	20,429	25,035	33,184	39,221	41,638	52,985	66,243	100,000	81,687
2000	20,789	25,095	34,303	40,337	41,952	56,334	68,322	99,411	80,250
2001	21,361	26,209	34,723	41,045	42,776	55,929	70,899	100,000	86,965
Women									
1990	$12,251	$14,429	$18,319	$22,227	-	$28,017	-	-	-
1991	12,066	14,455	18,836	22,143	$25,000	28,079	$34,949	$46,742	$43,303
1992	12,958	14,559	19,427	23,157	$25,624	30,326	$36,037	$46,257	$45,790
1993	12,415	15,386	19,963	23,056	25,883	31,197	38,612	50,211	47,248
1994	12,430	15,133	20,373	23,514	25,940	31,741	39,457	50,615	51,119
1995	13,577	15,825	20,463	23,997	27,311	32,051	40,263	50,000	48,141
1996	14,414	16,953	21,175	25,167	28,083	33,525	41,901	57,624	56,267
1997	14,161	16,697	22,067	26,335	28,812	35,379	44,949	61,051	53,037
1998	14,467	16,482	22,780	27,420	29,924	36,559	45,283	57,565	57,796
1999	15,098	17,015	23,061	27,757	30,919	37,993	48,097	59,904	60,079
2000	15,978	17,919	24,970	28,697	31,071	40,415	50,139	58,957	57,081
2001	16,691	19,156	25,303	30,418	32,153	40,994	50,669	61,748	62,123

Visual 2.2.3 - 20 Fastest-growing occupations

20 Fastest-growing occupations, 2004-14 (numbers in thousands)						
2004 National Employment Matrix code and title	Employment		Change		2004 annual earnings[1]	Most significant source of postsecondary education or training[2]
	Number		Number	Percent		
	2004	2014				
Medical scientists, except epidemiologists	72	97	25	34.1	Very High	Doctoral degree
Physical therapists	155	211	57	36.7	Very High	Master's degree
Occupational therapists	92	123	31	33.6	Very High	Master's degree
Network systems and data communications analysts	231	357	126	54.6	Very High	Bachelor's degree
Physician assistants	62	93	31	49.6	Very High	Bachelor's degree
Computer software engineers, applications	460	682	222	48.4	Very High	Bachelor's degree
Computer software engineers, systems software	340	486	146	43.0	Very High	Bachelor's degree
Network and computer systems administrators	278	385	107	38.4	Very High	Bachelor's degree
Database administrators	104	144	40	38.2	Very High	Bachelor's degree
Dental hygienists	158	226	68	43.3	Very High	Associate's degree
Forensic science technicians	10	13	4	36.4	Very High	Associate's degree
Diagnostic medical sonographers	42	57	15	34.8	Very High	Associate's degree
Physical therapist assistants	59	85	26	44.2	High	Associate's degree
Occupational therapist assistants	21	29	7	34.1	High	Associate's degree
Veterinary technologists and technicians	60	81	21	35.3	Low	Associate's degree
Medical assistants	387	589	202	52.1	Low	Moderate-term on-the-job training
Dental assistants	267	382	114	42.7	Low	Moderate-term on-the-job training
Physical therapist aides	43	57	15	34.4	Low	Short-term on-the-job training
Home health aides	624	974	350	56.0	Very Low	Short-term on-the-job training
Personal and home care aides	701	988	287	41.0	Very Low	Short-term on-the-job training

Activity 2.2.3 -

Percent Change in Wage and Salary Employment, Goods-Producing Industry Divisions, 1994-2004 and Projected 2004-2014



Activity 2.3.2 - Assessing My Skills

Name:__________________________ **Career Choice:**________________________________

Assess where you are now, using the SCANS skills and competencies, by checking the box that best describes you. From what you know about the job/career in which you are most interested, check the boxes that your career will most likely require.

Foundation	1 (weak)	2	3 (needs work)	4	5 (very strong)	Career requires
Basic skills						
Reading						
Writing						
Arithmetic						
Listening						
Speaking						
Thinking skills						
Creative thinking						
Decision making						
Problem solving						
Visualizes						
Knows how to Learn						
Reasoning						
Personal qualities						
Responsibility						
Self-esteem						
Sociability						
Self-management						
Integrity						
Honesty						

Activity 2.3.2 - (continued) Assessing My Skills

Competencies	1 (weak)	2	3 (needs work)	4	5 (very strong)	Career requires
Resources						
Identify						
Organize						
Plan						
Allocate						
Interpersonal						
Participate in team						
Teach skills to others						
Serve customers as clients						
Show leadership						
Negotiate						
Honor diversity						
Information						
Acquire						
Evaluate						
Organize						
Maintain						
Interpret						
Communicate to others						
Systems						
Use technology						
Understand complex interrelationships						
Technology						
Using a computer						

Visual 3.1.1 -

Please respond “true” or “false” to each of the following statements.

A. Each year, hundreds of banks fail. As a result, thousands of bank customers lose the money they have deposited in banks.

B. It is normal for governments (local, state and federal) to legally seize money in peoples' bank accounts.

C. Banks and payday loan organizations charge about the same amount of interest on loans.

D. If a bank is a member of the Federal Deposit Insurance Corporation (FDIC), its customers' checking and savings accounts are insured up to $100,000.

E. If you have a checking or savings account at a bank, you will pay less for money orders and to wire money than you would if you bought money orders at a convenience store or wired money through another source.

Video 3 - Get Banked

VIDEO SUMMARY

This video introduces banks as safe places to keep money. It focuses on the benefits afforded to bank customers – making deposits, using checks and debit cards, online banking and so on. It points out the high costs of using other sources of financial services, such as check-cashing services, payday loan establishments and non-bank businesses that issue money orders and wire funds. It also focuses on the idea that having a bank account is one step in a plan to achieve financial independence. It is important for students to feel comfortable in the financial arena. The most basic way to do this is by establishing a relationship with a bank. This is a responsibility, but it is not something that is difficult to do. It is possible to begin by setting up a checking account, learning to manage the check register as checks are written, getting an ATM card to withdraw money when you need it, and balancing your checkbook so you don't have overdraft fees.

Although banks have many advantages, a high percentage of Americans, as many as 25 million households in the United States, are unbanked; that is, they do not have a relationship with a bank. This means they can't take advantage of either the lower fees banks charge for various services or the interest that can pay on their accounts. Being unbanked is costly. Check-cashing facilities and payday loan establishments provide some of the services offered by banks but charge much higher fees.

Many people are wary of banks because they do not understand that there are different types of accounts and fees. Most banks are interested in a long-term relationship and support the consumer's long-term goals by offering a range of services that are important to that consumer at various stages of his or her life. This enables people over time to move from a pure checking account to saving accounts, to invest in their retirement, and potentially establish a borrowing relationship for big-ticket items like college and housing.

A bank account is the first step toward achieving financial independence. It is important to have a checking and savings account to build a relationship with a bank and to take advantage of other bank services such as credit cards, auto and college loans, retirement savings accounts and credit card services. As a consumer you need to determine your needs and shop around for the best deal to suit your lifestyle. Consider several banks before making your choice. And be sure that it is FDIC-insured. Bank deposits in FDIC-insured institutions are guaranteed by the federal government up to $100,000.

It's easy to save if it becomes a regular part of your money management plan. Having savings goals will help you plan for the future.

Activity 3.1.2 - Banks and Banking Services

1. **Do you think it is important to have a savings and/or a checking account at a bank?**

____

2. **Why do you think some people choose not to have a bank account?**

____

____

____

3. **Which bank services do you think are useful? Check all that apply.**

____ debit card

____ bank-issued credit cards

____ online banking

____ money order

____ wire transfer

____ ATM

____ access to bank loans

____ traveler's checks

____ Other______________________________

Activity 3.1.2 - (continued) Banks and Banking Services

4. If someone did not have a bank account:

A. Where do you cash checks?

____

B. How would they pay bills?

____

C. What do you think are safe places to keep money?

____

D. Why do you think they would have chosen to not use a bank?

____

E. How would they obtain loans without a bank account?

____

Activity 3.2.1 - A Friday Night in the Life of Carrie and Lisa

Carrie

Carrie Patton finishes her shift at the Gas and Go Store. It is Friday, and she has received her paycheck for the previous two weeks of work. Her two-week, after-tax earnings are $372.32. Carrie needs to cash her check. She has some bills to pay, and she needs money because she is going out with friends in the evening. Carrie stops at a check-cashing store. They agree to cash her check for a fee of $3. Next, Carrie stops at a convenience store to obtain money orders to pay her $75 monthly insurance payment and her $40 cell phone bill. The convenience store charges Carrie $7 for the money orders.

Carrie hurries home to get ready for the evening. She doesn't want to carry all of the remaining cash with her, so she sticks all but $40 in a can in the freezer. She thinks it is a safe place to keep her money. She gets dressed and is ready to go when her friend picks her up. Carrie and her friends end up going to the mall. They get something to eat and then shop for a while. Carrie buys two shirts that are on sale. With dinner and the shirts, she only has $7 left. She hadn't planned on shopping. Now her friends want to go to a movie, but Carrie doesn't have enough for the ticket. One of her friends tells Carrie to use the ATM, but Carrie doesn't have a bank account, so she can't do that. She ends up borrowing a few dollars from a friend with the promise to repay in a few days.

Lisa

Lisa Tornabenni finishes her shift at Family Video Rentals. It is Friday, and her paycheck for the previous two weeks of work was automatically deposited into her checking account. She pays no fees for her checking account. Her after-tax earnings are $365.15. She heads home and goes online to pay her electric bill, $75 monthly insurance payment and her $50 cell phone bill. Her bank offers free, online banking, so there's no fee for paying these bills. She also earns a small amount of interest for the money she keeps in her account. While online, Lisa transfers $25 to her savings account at the same bank. She is earning 3.1% interest, compounded quarterly, on that account. Lisa is going out with friends. They decide to go to the mall for dinner and some shopping. Lisa only has $25 with her, but if she needs more, she can always visit an ATM. She uses her debit card to pay for dinner and her shopping. She has to remember to enter those debits in her account register, so she knows the balance in her account. When she and her friends decide to see a movie, Lisa has enough cash to pay for the ticket.

- **A.** Carrie doesn't have any type of bank account. What are the dollar and non-dollar costs of her decision not to have a bank account?
- **B.** What are the dollar and non-dollar benefits of this decision?
- **C.** Lisa has a checking account. What are the dollar and non-dollar costs of her decision to have a bank account?
- **D.** What are the dollar and non-dollar benefits of her decision?

Activity 3.2.2 - Banks in the Community

Name of Bank:_______________________________________

Fees for opening the account? ______ **How much?**_______

Fees for using the account? _______ **How much?** ________

Online banking?_______ **Fees?** ______ **How much?** ________

ATMs conveniently located?
________ **Fees?** ________**How much?** ________

Interest paid on account balance?
________ **How much?** _______ **How often?** ________

Minimum balances required? ________ **How large?** ________

Limits on number of monthly
transactions?_______**Number allowed?**________

Other locations of Bank?_______ **Where?**__________

Activity 3.3.3 - Methods of Payment–Advantages and Disadvantages

Method of Payment	Advantages	Disadvantages
Cash		
Check		
Debit Card		
Credit Card		
Money Order		
Cashier's Check		
Traveler's Check		
Smart Card		

Activity 3.3.4 - Which Method to Use

Directions: Read each scenario below. Decide whether the individual in the scenario has chosen a good method of payment and explain why. If the individual hasn't chosen a good method of payment, identify a method or methods that would be better.

Kendra is taking a trip to France with others from her high school's French classes. She does not have a credit card, and her parents are concerned about her carrying cash for all of the other items she will want to have on the trip. She has decided to take some cash and to buy traveler's checks with the rest of the money.

Akeesha lives in the dorm at the state college. One Thursday night, she and her friends are studying. She decides to order pizza for herself and four other friends. She charges $36.27 on her credit card. She already used the credit card for books this semester. The pizza will add to the balance she owes, and she knows that she won't be able to pay the balance when the credit-card bill arrives.

Alex lives in Kansas City. His friend Mark attends school in Chicago. Mark bought two tickets for a concert. The concert is in three months, and Alex plans to drive to Chicago to attend. Mark can't wait three months for Alex to pay for the ticket. Alex is going to mail Mark $52 cash in the U.S. mail.
Terrill has about $35 worth of groceries in his cart. He plans to use his debit card to pay for the groceries. Then he will record the amount as a debit in his account register.

Tom needs to pay his electric bill – $65. He's at the Fill and Go Gas Station and Market. He buys a money order for $3.50 and sends it as payment to the electric company.

Visual 4.1.2 - **Credit Myths and Realities – True or False?**

1) **A person's credit score helps determine whether or not a person gets credit, the amount a person can borrow, and what interest rate a person has to pay for the use of credit.**

2) **Using a credit card, Sandy buys a $1,000 entertainment system. She pays $20 a month (which is the minimum the credit card company requires) and 18.9% interest. She will have the system paid off in four years and two months (50 months).**

3) **The following criteria are used to determine a person's credit score: payment history, personal income, new credit issued, length of credit history and types of credit.**

4) **Most financial experts advise people not to use credit to buy furniture and appliances.**

5) **Financial planners use a rule called the "20-10 rule," which recommends that you should not be in debt more than 20% of your yearly after-tax income and that your monthly payments should not be greater than 10% of your monthly net income.**

Visual 4.1.2 - (continued) **Credit Myths and Realities**

6) Having a lot of credit cards will not affect your credit score if you do not owe anything on the cards.

7) Three years ago Sam missed a payment on his car. He caught up and has paid the car off. The missed payment will not affect his credit score.

8) Buying impulse items like sodas and burgers using credit and making the minimum payment has no effect on your budget.

9) The best indicator of how much credit will cost you for any loan or credit card is the annual percentage rate (APR).

10) Managing credit wisely increases the choices a person has related to housing, transportation, leisure activities and general standard of living.

Video 4 - **Get the Credit You Deserve**

VIDEO SUMMARY

This video explores the costs and benefits of using credit. Credit instruments allow consumers to take advantage of sales, keep good financial records and use a convenient payment method. Credit also helps people guard against financial emergencies. As the Credit Wise Cats discuss in the video, credit also has a down side. Many people carry debt loads beyond their ability to repay. College students who borrow to finance their schooling are making a long-term investment in human capital that helps them earn higher incomes over their lifetime. However, many college students also use credit cards to pay for food, entertainment, clothing and other consumer goods that they would otherwise not have the financial resources to purchase. The danger is that irresponsible use of credit can allow a person to live beyond his or her means in the short run. When used in excess, consumer credit can create some significant problems for people. These problems can ultimately escalate to the declaration of personal bankruptcy.

What is the difference between a credit report and a FICO score? Is it better for a person to have a lot of cards he or she doesn't use, or to have no credit at all? Is it true that bankruptcy is a good way to get out of paying off debt? Does a late payment count against a person if he or she pays off the bill the next month? Is the annual percentage rate (APR) really more important than the monthly payment? These are all questions the video seeks to answer. Managing credit is not difficult if a person knows the "rules of the game" and understands that credit is not "free" money that you don't have to pay back.

Activity 4.2.5 - **Would This Be a Wise Use of Credit?**

(Check whether the person should or should not use credit in each instance and then explain your answer on a separate sheet of paper.)

YES NO

______ ______ **1. Jack wants to treat the other students on his dorm floor to a pizza party. He figures it will cost close to $150, so he is going to charge it, because he doesn't currently have $150 in cash or in the bank.** ***Explain***

______ ______ **2. Rosa wants to buy new seat covers for her car, because the seats are torn. They cost $150 for each seat.** ***Explain***

______ ______ **3. Cassie wants to become an auto technician. Her parents can only afford to pay $2,000 of the $8,000 tuition. She is considering a student loan to make up the difference.** ***Explain***

______ ______ **4. Felipe wants to go on the senior class trip to Disney World. The trip costs $775, so he thinks he should put it on a credit card that he just received. He's sure he can afford the minimum payment.** ***Explain***

______ ______ **5. John needs a car to get to his new job. There is no public transportation.** ***Explain***

Activity 4.3.1 - **What's in a Score**

Account payment information on specific types of accounts: cards, retail, installment, mortgages, finance companies	Presence of adverse public records: liens, suits, bankruptcies, wage attachments, collection items, past-due items
How severe is a payment delinquency (past due for how long?)	Amount past due on delinquent accounts or collection items
How recent were past-due items?	Number of past-due items on file
Number of accounts paid as agreed	Amount owed on accounts
Lack of a specific type of balance	Number of accounts with balances
Proportion of credit lines used (revolving)	Time since accounts opened
Time since account was actively used	Number of recently opened accounts, and proportion of accounts that are recently opened by type of account
Time since credit inquiries	Re-establishment of positive credit history following past payment problems
Number of various types of accounts	

Activity 4.3.1 - (continued) **What's Not in a Score**

Race, color, religion, national origin, sex and marital status	Your age
Your salary, occupation, title, date employed or employment history	Where you live
Any interest rate being charged on any account	Any items reported as child/family support or rental obligations
Certain types of inquiries (questions about your credit)	Any information not in your credit report
Any information that is not proven to be predictive of future credit performance	Whether or not you are participating in credit counseling of any kind

Visual 5.1.1 - Statements about Pursuing Wealth – True or False?

1. **Your best shot at accumulating $500,000 or more over a lifetime is buying a lottery ticket.**

2. **One half of American households have accumulated less than $1,000 in financial assets.**

3. **Albert Einstein called compound interest one of the most amazing discoveries of all time.**

4. **If you are a saver, compound interest works for you. If you are in debt, compound interest can work against you.**

5. **“Pay yourself first” and “Spend less than you earn” are two important rules for building wealth.**

Video 5 - Get a Financial Plan

VIDEO SUMMARY

The video notes that building wealth is hard work, and outlines some key factors that affect people's ability to build wealth. These factors include: paying yourself first, starting to save early, saving regularly and managing your spending and credit. The video also focuses on the importance of developing a budget and sticking to it. This necessitates an understanding of fixed, periodic and variable expenses; interest rates; credit cards; and annual percentage rates. To make a budget, list and periodically tally up everything you spend. This will help identify your long-term expenses and estimate how much you need to save for emergencies. Once you have enough saved for emergencies, you can start to think about investing. Investing isn't just about the money – it's about how that money can enhance your life.

It is very important for young people to take advantage of investment opportunities early in their careers, when they have fewer financial obligations than later in life. Making and growing money takes careful financial planning. It is not that difficult to develop a financial plan if you take it step-by-step.

There are many kinds of investments, including the following:

- Retirement accounts
- Stocks
- Bonds
- Mutual funds
- Real estate

Even modest investments can yield substantial earnings over time. Compounding interest can work for you, but you need to be invested for the long haul and add steadily to your savings, month after month. Young people have time on their side and can benefit from a consistent investment program over the years. Investments turn today's financial goals into tomorrow's reality, enabling future expenditures on education, travel, retirement or whatever you have planned.

Activity 5.1.1 - The Miracle of Compounding

Use the data in the table to answer the questions that follow.

	Cousin A		Cousin B	
Age	$ Payment	End-of-Year Accumulation	$ Payment	End-of-Year Accumulation
18	$2,000	$2,200	$0	$0
19	2,000	4,620	0	0
20	2,000	7,082	0	0
21	2,000	9,790.20	0	0
22	2,000	12,769.22	0	0
23	2,000	16,046.14	0	0
24	2,000	19,650.76	0	0
25	2,000	23,777.42	0	0
26	0	26,155.16	2,000	2,200
27	0	28,770.68	2,000	4,620
28	0	31,647.75	2,000	7,282
29	0	34,812.52	2,000	10,210.20
30	0	38,293.77	2,000	13,431.22
31	0	42,123.15	2,000	16,974.34
32	0	46,335.46	2,000	20,871.77
33	0	50,969.01	2,000	25,158.95
34	0	56,065.26	2,000	29,874.85
35	0	61,671.69	2,000	35,062.33
36	0	67,838.96	2,000	40,768.57
37	0	74,622.86	2,000	47,045.42
38	0	82,085.15	2,000	53,949.97
39	0	90,293.66	2,000	61,544.96
40	0	99,323.03	2,000	69,899.46
41	0	109,255.33	2,000	79,089.40

Activity 5.1.1 - (continued) The Miracle of Compounding

Cousin A			Cousin B	
Age	$ Payment	End-of-Year Accumulation	$ Payment	End-of-Year Accumulation
42	$0	$120,180.87	$2,000	$89,198.35
43	0	132,198.95	2,000	100,318.18
44	0	145,418.85	2,000	112,550.00
45	0	159,960.73	2,000	126,005.00
46	0	175,956.81	2,000	140,805.50
47	0	193,552.49	2,000	157,086.05
48	0	212,907.74	2,000	174,994.65
49	0	234,198.51	2,000	194,694.12
50	0	257,618.36	2,000	216,363.53
51	0	283,380.20	2,000	240,199.88
52	0	311,718.21	2,000	266,419.87
53	0	342,890.04	2,000	295,261.87
54	0	377,179.04	2,000	326,988.06
55	0	414,896.94	2,000	361,886.86
56	0	456,386.63	2,000	400,275.55
57	0	502,025.30	2,000	442,503.10
58	0	552,227.83	2,000	488,953.41
59	0	607,450.61	2,000	540,048.75
60	0	668,195.67	2,000	596,253.63
61	0	735,015.24	2,000	658,078.99
62	0	808,516.76	2,000	726,086.89
	Total Contribution		Total Contribution	
	Total Amount of Interest Earned		Total Amount of Interest Earned	

Activity 5.1.1 - (continued) The Miracle of Compounding

1. **What was the total contribution made by Cousin A? ____________________________**

2. **What was the total contribution made by Cousin B? ____________________________**

3. **At age 62, which cousin has the most in her account? ____________________________**

4. **What was the total amount of interest earned by Cousin A? ______________________**

5. **What was the total amount of interest earned by Cousin B? ______________________**

6. **How much more interest did Cousin A earn than Cousin B? ______________________**

7. **Why was Cousin A able to earn so much more interest? __________________________**

Activity 5.2.1 – Building a Budget to Build Wealth

Anya completed an associate's degree in banking and finance at a local community college. She accepted a job at a local bank as a manager trainee, earning $1,640 per month. She has been living at home, but she wants to move into her own apartment. A friend from school wants an apartment, too. So Anya and her friend have agreed to be roommates. They will split the expenses for the apartment equally. Anya talked with her parents about finding an apartment. Anya's parents said that moving into an apartment seemed like a good short-term goal for her – something she might be able to accomplish in six months. But they also suggested that she develop a budget before she goes any further. Anya came up with the following budget.

Anya's Monthly Budget		
Item	**Income**	**Expenses**
Take-home pay	$1,279.20	
Other income	0	
Rent		$350.00
Electricity		$75.00
Gas for hot water heater		$25.00
Water and sewer service		$15.00
Telephone		$65.00
Cable television		$90.00
Groceries		$200.00
Clothing		$350.00
Gasoline for car		$100.00
Total	**$1,279.20**	**$1,270.00**

Activity 5.2.2 – Building a Budget to Build Wealth, Part 2

Anya's parents looked over her budget. They pointed out that she had forgotten about her car insurance, which is due every six months. They also reminded her that her car would need periodic maintenance. They asked her if there were some variable expenses that she might reduce and pointed out that she hadn't included any spending for entertainment. They also emphasized how important it is that she start saving. They reminded her that the bank where she works has an employee savings plan for long-term savings, and that she should also try to have some savings for emergencies. Anya thought about what her parents said and made some changes to her budget.

Review Anya's new budget and answer the following questions:

1. **What reductions did she make in her spending?**

____

____

2. **What categories did she add to her budget?**

____

____

3. **How is she handling her periodic expenses?**

____

____

4. **What is still missing from her budget?**

____

____

5. **What is the major problem with Anya's budget now?**

____

____

6. **What recommendations would you make to help Anya correct the problems with her budget?**

____

____

Activity 5.2.2 - (continued) Building a Budget to Build Wealth, Part 2

Anya's Monthly Budget		
Item	**Income**	**Expenses**
Take-home pay	$1,279.20	
Other income	0	
Rent		$350.00
Electricity		$75.00
Gas for hot water heater		$25.00
Water and sewer service		$15.00
Telephone		$65.00
Cable television – basic plan		$90.00
Groceries		$200.00
Clothing		$300.00
Gasoline for car		$100.00
Entertainment		$50
Car Insurance ($1,085 per year/12 months)		$90.42
Total	$1,279.20	$1,360.42

Activity 5.2.2 - Building a Budget to Build Wealth, Part 3

Anya and her roommate found another friend who wanted to share an apartment with them. They were able to find an apartment with three small bedrooms. They will split the expenses for the apartment equally. This will reduce Anya's rent and utility payments each month. After talking with her mom, Anya realized that spending $300 a month on clothing was really just too much. So Anya reduced the amount she plans to spend on clothing. Review Anya's new budget and identify other changes that she made. Discuss whether these changes are good ones for Anya in the long run.

Anya's Monthly Budget		
Item	**Income**	**Expenses**
Take-home pay	$1,279.20	
Other income	0	
Rent		$275.00
Electricity		$50.00
Gas for hot water heater		$16.00
Water and sewer service		$10.00
Telephone		$65.00
Cable television – basic plan		$65.00
Groceries		$218.00
Clothing		$100.00
Gasoline for car		$100.00
Entertainment		$70.00
Car Insurance ($1,085 per year/12months)		$90.42
Car maintenance		$25.00
Work retirement account		$100.00
Automatic deposit into savings account		$75.00
Total	$1,279.20	$1,259.42

Activity 5.3.2 – Allocation Matters

How money is allocated can make a real difference in investment performance over an extended period. Below are three options for allocating $100,000. Using the average return on each investment type from 1926-2004 – 10.4% for stocks, 5.9% for bonds and 3.7% for bank deposits – determine what each allocation strategy would yield in a hypothetical year. Of course, in any given year, actual returns could be quite different.

A	B	C
60% stocks	30% stocks	10% stocks
30% bonds	60% bonds	30% bonds
10% bank deposits	10% bank deposits	60% bank deposits

