Lesson 2: Savings and Financial Institution Knowledge

Making the Most of Your Money

Target Audience: 9-12 grade students
60-90 minute lesson

Objectives

EPF.10 The student will develop consumer skills by

- i) Accessing reliable financial information from a variety of sources
- j) Explaining consumer rights, responsibilities, remedies and the importance of consumer vigilance

EPF.12 The student will demonstrate knowledge of banking transactions by

- e) Preparing all forms necessary for opening and maintaining a checking and savings account
- f) Reconciling bank statements

EPF.13 The student will demonstrate knowledge of credit and loan functions by

- b) Analyzing credit card features and their impact on personal financial planning
- c) Identifying qualifications needed to obtain credit
- e) Comparing terms and conditions of various sources of consumer credit
- f) Identifying strategies for effective debt management
- g) Explaining the need for a good credit rating

EPF.17 The student will demonstrate knowledge of personal financial planning by

- a) Identifying short-term and long-term personal financial goals
- b) Identifying anticipated and unanticipated income and expenses
- c) Examining components and purposes of a personal net worth statement
- d) Developing a personal budget

Materials

- Lesson plan (the green words are a basic script guideline for the teacher)
- PowerPoint presentation
- Worksheets and quiz
- Song by the O'Jays "For the Love of Money" or any other fun money song of your choice
- M&Ms (one small bag per student)
- Video: Meet Winston-Credit Score

Introduction

Play the song "For the Love of Money" by the O'Jays or some other money song.
Put students in groups. Have students design a poster about what money means to them. Allow the groups to share their creations.

Lesson

Money is a big part of our lives. Whether we like it or not, the world we live in is influenced by money. Today, we are going to look at basic principles of money management. How many of you already have a checking or savings account? The majority of you probably deal with cash when using money. However, some of you already have some experience with debit cards, checks or credit cards.

What are the immediate and long-term effects of the money decisions that you make? For example, if you choose to save your money what are the immediate and long-term effects versus if you choose to spend it?

View and discuss the Opportunity Cost slide.

What Opportunity Costs occur from your financial choices? Each financial decision that a person makes has an opportunity cost associated with it. A person is constantly giving up things in order to gain something. The opportunity cost of any activity is the value of the next best thing you could have done instead. For example, let's say your parents gave you a choice to either go to the movies or stay at home and watch a movie on DVD that you already own. You choose to go to the movies. If your next-best alternative to seeing the movie is staying at home watching a DVD you already own, then the opportunity cost of seeing the movie is the money spent plus and the comfort you forgo by not staying at home watching the DVD. The money spent on the movie could be put in a savings account to go toward a car purchase. This economic principle of opportunity costs can be seen throughout each lesson we will be doing together.

View and discuss the Money slide.
Discuss the pro and cons of using cash. When using cash what are the pros and cons? There is no monetary cost to using your own cash. No one will charge you interest and you cannot spend more than you have. Some of the cons are: you can easily lose cash and it doesn't earn interest if you do not put your money in a financial institution. You are giving up the security of a credit card and any money that could be earned in a savings account from interest.
I usually give specific examples of the pros and cons.

Do you know the difference between a debit card and credit card? A debit card is different from a credit card in that the money that is used when you use your debit card is taken from your checking account. You must have money in your checking account when you use a debit card. Credit cards use someone else's money. You are essentially borrowing money when you use a credit card. You don't have to have money in your personal checking account with a credit card.

What is the difference between a debit card and check? Both utilize money from your checking account. The main difference is that one is plastic and one is paper! In the past, checks took longer to clear in your account. However, with today's technology they can clear immediately when received. If I were to write a check to Wal-Mart for purchases, they could immediately take that money from my checking account. It is important that you have money in your checking account before you write a check or use your debit card. This will avoid check kiting or writing bad checks, which is illegal to do. We will discuss credit cards in depth later in the lesson.

I am a dreamer and love to imagine big dreams and plans. However, I have learned that in order to fulfill my dreams I must have a plan. This is especially true when it comes to financial goals.

View and discuss the Financial Goals slide.

There are two types of goals that we are going to focus on. These are long-term and short term goals. Short-term would be within the next few years or months. Long-term is five years or longer. It is important to remember that while it takes work to reach financial goals, the goals must be within reason in order to achieve them. They also need to be specific and measurable. If I say, "my goal is to save money," that is not specific or measurable. If I say, "I am going to save $100 per month for five months to buy a new bike," that is specific in the amount, measurable in the time and is reasonable for me.

Have students to write down some of their financial goals and discuss them. Emphasize the specific, measurable and reasonable portions of the goals. This is also a good time to remind them that their goals will have opportunity costs associated with them. Have them list one opportunity cost along with each goal.

The opportunity cost of saving my $100 per month would be the things (clothes, shoes) that I could buy with that money. I am giving up the right to purchase things with the money that I am choosing to save for future benefit.

View and discuss the Spending Plan/Budget slide.

In order to reach financial goals, you must determine what your overall financial picture looks like today. Developing a spending plan or budget is a perfect way to help you stay on track in meeting your goals. Your expenses should never be more than income. Write down what your weekly and monthly expenses are and track what you are spending daily. Be aware of budget busters. These vary from person to person, but often include impulse purchases, splurging on gifts or vacations, and the mysterious way the $40 you took out of the ATM yesterday is suddenly gone.

View the M&M Budgeting Game slide.

Play the M&M budget sheet game. Emphasize that savings is an expense.

You are paying yourself first just like you would pay the electric bill. Life can be a lot like this bag of M&Ms. You don't necessarily know what color of M&M you will get and you never know what expenses will occur. However, if you have a plan or budget, you have more control over where your money is going.

For the 90-minute lesson, have students create a mini-budget. They could list what their income and expenses they have. Then see if they balance out.

View and discuss the Managing Your Everyday Money slide.

Many of you said that you already have a checking account. It is important to have a safe place to keep your money. You also want to think about saving and having your money earn interest. All of this can be taken care of at a credit union, bank or other financial institution. Here is a list of things that a financial institution will need when opening up a basic account:

- Meet their minimum age requirements
- Have proper ID
- Minimum opening deposit

View application on the overhead.

Don't forget to reconcile your bank account.

View and discuss the Write Down What You Are Spending slide.
Show them how to reconcile a bank account.

One reason that many people are unable to achieve their financial goals is because of credit card debt.

View and discuss the three Credit Card slides.

Play the Video Meet Winston-Credit Score

- Check for fees. Discuss annual fees and over-the-limit fees. Annual fees are fees that are charged once a year just to have a credit card. Over-the-limit fees are charged when a consumer goes over the credit limit they are approved for on the credit card.
- Compare rates. Be careful of teaser rates. These are rates that are offered usually for a short amount of time to get you to sign up for a credit card. The rates can jump up later.
- Know what your limit is.
- Know how much you can afford to pay off each month. It is best to pay off the credit card in full each month

Note the costs when a credit card at 18% APR is not paid off in full. Be sure to read and understand the credit card disclosure that is sent to you with a credit card. Figure out what the terms of the disclosure really are. What is the basis of repayment? When do you have to pay off the balance and how much are you being charged if you hold a balance on the card? When do the charges begin on purchases that you make? For example, you might be given a grace period for repayment on balances for purchases, but no grace period would be given for cash advances or balance transfers. A grace period is a period in which a borrower can pay off the full balance of a credit account without incurring additional finance charges and/or late fees.

How you manage your credit card accounts will influence your credit score.

Do the credit card choice activity.
This activity will take less then 10 minutes. If you do not have enough time to include this activity in the classroom it can be used as homework. Use the Decision-Making Model worksheet.

This activity will help students learn how to choose a credit card that will meet their needs. It will make them evaluate each option that a credit card company offers and understand the pros and cons of various cards. At the end of this activity students should realize the importance of their decision to pick the best card for them. Students will see how the choices they make now can have a long term effect on their finances.

View and discuss the Credit Bureau Information slide.

When you open up a credit card account or take out a loan, this is reported to credit reporting agencies that give a credit score. There are three major credit bureaus; Experian, Trans Union and Equifax. These bureaus compile information on how you use your credit. Under the Fair

Credit Reporting Act, you have the right to one free copy of your credit report per year from each bureau.

Discuss the bullet point on the slide.

View and discuss the Credit Scoring slide.

The most commonly used credit score is called the FICO score. Your FICO score can range from 300-850 depending on the following factors:

- Payment history is 35% of your credit score. Do you pay your bills on time? This is the biggest percentage of a credit score and will have the biggest impact.
- Amount owed is 30% of your credit score. How much do you owe versus your credit limit or how much can you borrow?
- Length of credit history is 15% of your credit score. How long have you had your credit accounts?
- New credit is 10% of your credit score. How many new accounts have you opened? Be careful about opening too many accounts at one time.
- Types of credit used is 10% of your credit score. Do you have a car loan, credit cards or a mortgage?

View and discuss the Impact of Credit Score on Interest Rate slide.

The better your credit score is the better interest rate you will receive, thereby saving money on the amount of interest you pay.

How much money a person has after paying off debt is called net worth. In order to figure out what your net worth is you must add up what you own and what you owe. Then subtract what you owe from what you own (See worksheet).

Conclusion

View and discuss the Budget Worksheet slide.

Let's pretend that I am going to give you $100. I want you to make three expenses with your money. This is an example of how to balance your checking account.

Show students how to reconcile an account of the overhead.

How will you spend your money? Will you spend it on food, gas or clothing?

Have them put their pencils down after about five minutes. Discuss the different purchases that they made.

Ask students how many of them saved money. Did they pay themselves first? The point of this exercise was to see if they remembered to pay themselves first.

View and discuss the Basic Rules of Money and Financial Resources Web Sites slides.

Assessment

Have students take the Alternate Endings quiz. Before students take the quiz remind them that each financial decision will have an opportunity cost. If they choose wisely they can earn more points on the quiz. Discuss their answers. Have students explain some of the possible effects on their financial future based on decisions that they make. What were some of the things that were given up because of the choices they made? Keep in mind there are no right or wrong answers to this quiz!

For homework or for the 90-minute lesson, have students look in the newspaper or online and compare different interest rates that financial institutions offer.

