Lesson 6: Inheritance and Investing

What's Your Story?

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

Objectives

EPF.10 The student will develop consumer skills by

a) Examining precautions for protecting against identity theft and other personal information

EPF.14 The student will demonstrate knowledge of the role of insurance in risk management

a) Evaluating insurance as a risk management strategy
b) Distinguishing among the types, costs, and benefits of insurance coverage, including automobile, life, property, health, and professional liability
c) Explaining the roles of insurance in financial planning

EPF.18 The student will demonstrate knowledge of investment and savings planning

a) Comparing the impact of simple interest vs. compound interest on savings
b) Comparing and contrasting investment and savings options
c) Explaining costs and income sources for investments
f) Describing how the stock market works

Materials

- Lesson plan (the green words are a basic script guideline for the teacher)
- PowerPoint presentation
- Handouts
- Pit game
- Meet Pierre: First Savings Video

Introduction

View Auntie Sue slide.

Read the story of Auntie Sue.

Auntie Sue is your 95 year old aunt. Sadly, she recently passed away. Auntie Sue knew about protecting herself and assets. She had a good retirement income and while she was living she had medical insurance and long term care insurance to help cover the expensive medical and related costs that often come with old age. Auntie Sue had homeowners and car insurance to protect her personal property. Finally Auntie Sue had a will and life insurance, and she left some of the life insurance money to you!

Lesson

Play Meet Pierre: First Savings Video
View and discuss Insurance slide.

For the 90-minute lesson, break the students up into 5 groups. Give each group a paper with one of the types of insurance that was listed in the story. Have groups brainstorm what that insurance is used for and why it is important.

What types of insurance did Auntie Sue have?
This is a great time to briefly cover the topic of insurance and why it is important to have it. The types of insurance that Auntie Sue had are underlined in the story.

What does each insurance cover?
Insurance definition: Plan in which individuals and organizations who are concerned about potential risks will pay premiums to an insurance company, who in return, will reimburse them if there is loss.

Why is insurance important?
Insurance is important to help cover the cost of things when unplanned events happen. For example, if your home were to burn down, homeowners insurance would help cover the cost of replacing your home.

View the Inheritance slide.

> You have just inherited $20,000! What are you going to do with the money?

Have students use the graphic organizer handout to show what they would do with the money.

View and discuss the Did You Pay Yourself First slide.
Ask students if they paid themselves first. (View the pay yourself first slide) Review the importance of setting aside money and saving. Emphasize that this money was unexpected.

> Unexpected money can be a financial boost. A majority of the money could be saved or invested because you did not expect to have it in the first place.

See how many students saved. Proceed to discuss if any student chose to invest the money.

View and discuss the Saving and Investing slide.
One activity for the 90-minute time period is to have students write down on index cards what they think of when they hear the word savings. Then write what they think of when they hear the word investing. Display the cards and discuss. For the 60-minute lesson, just discuss saving and investing. Emphasize that both involve putting aside money and not using it until needed. Saving accounts can usually be easily accessed while with investments one usually sets the money aside for a longer period of time.

View and discuss the Compound Interest slide.

> Both saving and investing utilizes compound interest. Compound interest is the concept of adding accumulated interest back to the principal, so that interest is earned on interest going forward. So let's say John gives me $100 to keep in my credit union or bank. I am going to give John $5 per year to keep his money. The $5 is interest. If John leaves his money for another year, he will earn interest not just on his initial $100 but also on the $5 of interest. Show them the compound interest calculators and savings calculators.

View and discuss the Savings Account slide.

As we discussed earlier, a savings account can be easily accessed. We often hear of savings accounts referred to as cash equivalents. The money in a savings account is equal to having cash. It is in a safe place and in most instances is earning interest. Savings accounts at a financial institution are insured by an agency of the federal government up to a certain amount, meaning if the bank or credit union were to go out of business, you would be guaranteed the funds in your account. Saving accounts are helpful because they are easy to get to in case of an emergency. The rate on a savings account could change, but your money will not decrease or go away unless you are paying fees.

View and discuss the Different Types of Savings Accounts slide.
Please note that these accounts are examples of accounts at Virginia Credit Union. They may vary depending on which financial institution the student chooses.

Regular Savings

- Minimum balance may be required
- Financial Institutions may waive the minimum balance requirements for young people on savings accounts. This will allow a young person to earn interest on a savings account regardless of how much money they have in it. Be sure to ask about this when you open up an account

Money Market Savings

- Generally used for larger amounts of money
- Can earn higher interest rates than regular savings account
- You have access to this money but must maintain a certain balance to receive the higher interest rate

Savings Certificates

- An account where you agree to commit your money for a certain amount of time in return, for a rate that is usually higher than a regular savings or money market savings
- Terms may vary, such as 3 to 60 months
- Minimum deposit required, such as $500 or $1,000
- Penalty for early withdrawal

View and discuss the Investment Account slide.

Risk is involved with investments. One usually thinks long-term when investing. You also need to manage your funds or have someone else manage them such as a broker or financial advisor. Fees are usually involved to buy and sell stock.

View and discuss the Stock Investment slide.

When a person buys a share in a stock, they own a percentage of ownership in a corporation. I like to use a personal example for this. Let’s say I have a company called Hedges’ Hats and I list it on the stock market. Joe decides to buy a share of my company. Joe is now part owner of Hedges’ Hats. If Joe bought a share for $30 and then in two months the same share is worth $50, he would have earned $20.

View and discuss the Pros and Cons of Stocks slide.

However there is the possibility of losing money too. Let's say the stock that was originally worth $30 is now only worth $15, Joe would have lost half of his money. Stocks have a greater potential to make money but they can be risky. One week your stock may be worth more than what you paid for it, the next week less.

View and discuss the Bonds slide.

A bond is considered a less risky investment compared to stocks. A bond is a loan to a company (corporate bond) or the government (government bond). If you buy a bond you are a bondholder and are the lender to a company or government. Corporate bonds tend to be riskier than government bonds, but might offer higher returns. U.S. Government obligations also are called treasury bonds, notes or bills and are considered very safe.

View and discuss the Mutual Funds slide.

Mutual funds are diversified investments. They can be made up of any combinations of stocks, bonds and cash equivalents. Each fund has an objective or specific goals. There are thousands of mutual funds in virtually every investment combination. A company or financial advisor is paid to manage mutual funds. Here are examples of mutual fund portfolios.

View and discuss the slide with pie graphs of mutual fund risk levels.
These are just an example of different types of mutual funds according to risk levels. Explain that mutual funds could be made up of just bonds or just stocks. There are all sorts of combinations.

View and discuss the Retirement Accounts slide.

Retirement accounts are accounts used to save specifically for retirement. Retirement accounts such as a 401(k) or 403(b) can be offered by employers. These plans are employer-sponsored retirement plans. The employee elects to have a portion of his or her wages paid directly or deferred into his or her account. Some companies will match your contribution. For example, if you put 3% in your 401(k) plan and your company offers to match it, that means the company will also put 3% into your 401 (k). However, if you opt not to put money away each month, the company would not be matching anything! You would be losing out on that money.

An IRA is an Individual Retirement Account. These accounts are different from a 401(k) or 403(b) but can be in addition to it. There are two types of IRAs. Roth and Traditional IRAs have tax advantages to them. You can open up an IRA separate from a company. These can be set up through a broker, a mutual fund company or financial institution.

View and discuss the Find a Stock slide.
Reuters.com is one of many websites that you can use to research stocks. The links that I take you to are to find symbols and see how the stock they choose is doing. You will want to research this site before you go on it in case there is other information you want to share with your students. Discuss how supply and demand will come into play with the stock market.

Play Pit! This is a fun stock market game. I changed it a little to incorporate different ticker symbols. You will find the game cards and the rules in your handout.

Conclusion

Conclude the lesson by discussing the importance of securing all money, documents and personal identifying information. Ask students, "How would you feel if the money received from Auntie Sue was taken because your identity was stolen?"

Identity theft can happen when you least expect it. Identity theft is obtaining personal identifying information from someone with the intent to defraud. The following is considered identifying information:

- Name
- Social security number
- Date of birth
- Driver's license
- Mother's maiden name
- Credit and debit card numbers
- Bank account numbers
- Passwords
- Personal identification numbers (PINs)

You should always keep track of personal identifying information. Carrying your social security card in your wallet is a bad idea. Always know what is in your purse or wallet. Do not carry more cards than you need.   One suggestion is to make a copy of all identifying information in your wallet in case it ever gets stolen. That way you automatically know what cards need to be canceled and what information was stolen.

Identity theft can be perpetrated by the following:

- Information is stolen from an individual
- Accounts opened in the victim's name
- Loans applied for in the victim's name
- Jobs obtained in the victim's name

You can help protect yourself from identity theft by:

- Protecting your personal and financial information: social security number, passport, birth certificate, credit cards, ATM/debit cards, checks, driver's license
- Shred personal information you don't need such as credit card bills and other statements with account information
- Don't give information by the phone unless you initiated the call
- Be Internet smart
- Do not respond to e-mail or text messaging if asking for account information or personal information.
- Check statements carefully and promptly, then report any discrepancies

According to the Federal Trade Commission's 2006 Identity Theft Survey Report where they surveyed 559 random individuals,

- Over three-quarters of all ID theft victims (84%) reported that he or she did not personally know the thief, regardless of whether they had information about the thief's identity.
- 16% of all victims said that they personally knew the thief:
- 6% of victims knew that a family member or relative was the thief.
- 8% of victims knew that a friend, neighbor, or in-home employee was the thief.
- 2% of victims reported that someone known to the victim from the workplace was the thief.

Keeping your information secure at all times at home and in public is important. By taking the steps we discussed in securing your personal information, you will be able to better protect yourself from being an identity theft victim.

Assessment

View and discuss the Happy Ending slide.

Have students write a paragraph on what they would do with their inheritance. Ask them to tell you why they chose the option they did. This can be graded. Have them be serious and explain why they chose to invest their money or why they chose to put their money in a savings certificate, money market or regular savings? This will help you and the students clearly understand the reasoning behind choosing certain savings or investment options.