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INTRODUCTION

Unit Goals

- ❖ Students will be introduced to the course, meet the instructor, and receive a high level overview of the lessons to be covered.
- ❖ Participants will understand the common factors that cause financial problems and the skill sets they need to improve their financial situations.
- ❖ Students will gain motivation to learn the subject matter and understand the role money plays in their lives.
- ❖ Participants will develop a sense of hope and confidence in their ability to manage their personal finances.
- ❖ Students will understand the role money plays in retirement planning.
- ❖ Participants will build increased confidence in their ability to manage their personal finances.

Slide 1: Program Title

Slide 2: Why Do You Want to Learn about Money?

REVIEW the examples on the slide:

- **HEALTH.** Having money lets you afford healthy activities and food; lack of funds affects your stress levels and mental health, and means you can't afford to pay for healthy food and activities.
- **HAPPINESS.** When you're able to do the things you love, you feel happier. When you're short on money, you may be uncomfortable, and discomfort detracts from your happiness.
- **PRODUCTIVITY.** Being financially stable increases productivity in all life areas while financial problems cause worry, and worry eats into your productivity.

Slide 3: The American Dream

SAY … Money is what allows you to live the American Dream.

EXPLAIN that James Truslow Adams, a well-known American writer and historian during the 1930s to 1950s, described the American dream very well in the quote shown on the slide.

> *"The American Dream is that dream of a land in which life should be better and richer and fuller for everyone, with opportunity for each according to ability or achievement."*

SAY … I am here to help you live your own personal American Dream. As you will discover throughout this event, I'm passionate about helping people live the lifestyle they desire.

People often say "Money can't buy you love … or happiness." While that may be true, money certainly has positive and negative effects in our lives.

Slide 4: Instructor Introduction

PROVIDE a brief introduction of yourself. Previous experience, credentials, passions, what motivates you about propagating financial literacy, ect.

More Positive vs. Negative

SAY … Here are a few more examples of how money can affect our happiness.

REVIEW how money influences happiness.

- First, money can have a huge impact on our relationships. In fact, money issues are the leading cause of divorce in the U.S. If you handle your finances well, you'll argue less and avoid relationship stress.
- Money affects security. Financial stability lets you feel safe, while financial distress leaves you unable to afford safety measures.
- Money has tremendous impact on your well-being.
- And finally, financial smarts can give you the freedom to enjoy life while lack of financial education means you have to work harder and longer just to make ends meet.

Situations You Will Avoid

SAY … No matter what financial situation you're in personally, you definitely are not alone. Look at some of the numbers — people all across the country are suffering from money issues.

REVIEW the statistics about money problems in America.

- Regardless of their income, 70% of Americans are living paycheck to paycheck.
- One in every 45 households are in foreclosure.
- Forth percent of Americans will never gain a net worth larger than $10,000.
- Bankruptcy, debt — all these things are common.

- Many people are going through financial struggles.

SAY … The question I want you to ask yourself is "Why?" Why are so many people having money issues today? I think I know the answer. They just were never taught about money. Nobody ever told them how to handle their money. That's what you're here for today. By learning money skills now, you can either avoid or get out of bad situations like these.

Slide 5: Why do People Get in Financial Problems

SAY … Here are some reasons why people get into financial problems.

REVIEW some factors that cause financial difficulties.

- People do not clearly define how much money they need to live their desired lifestyles.
- Lack of a clear financial plan.
- People do not have trusted financial mentors, advisors, or coaches.
- Poor financial choices due to lack of financial knowledge.
- They lack the confidence they need to make necessary financial moves.
- Poor financial choices due to emotions. Fear and greed motivate most choices.
- People take advice from the wrong people. Most advice comes from unqualified salespeople and friends.
- They had a few problems that snowballed.
- Unrealistic expectations of investment returns.
- Poor financial habits developed at an early age.

Slide 6: Relationships of Financial Problems

SAY … All the different aspects of money relate to each other so if you get into problems in one area, you'll get into problems in other areas as well. Problems can snowball out of control when just one thing gets out of place. Let's talk about how money problems interrelate.

Here's an example: Let's say you lose your job and you're out of work for a year. The first thing most people would do is tap into their savings, maybe cash out their retirement plan — anything in the asset area.

EXPLAIN how this affects people's long-term needs, like the ability to retire and other things like college bonds or saving to buy a home. Tell students you'll talk later about having an emergency fund in case anything happens.

SAY … The next thing a person might do is use their credit cards to pay their rent, their car payments, and things like that. If you can't get a job for a while, you can't pay back any money you borrowed.

DISCUSS how that can start to impact your credit rating. And when your credit rating is damaged, the interest rates of your credit card debt will increase. That means it'll cost more to purchase a car. And bad credit can even affect your ability to get a job.

SAY By this time, you definitely have not been paying insurance because that's simply something you cannot afford. I'm sharing this with you to show you how everything is interrelated. If just one thing happens, it can really throw everything out of whack.

Slide 7: There's Good News

SAY … Now you know some ways people get off course. But I'm here with good news! Fortunately, the basic principles of personal finance are easier than the majority of classes you took in high school. You don't have to be great at math or reading. You just need to follow some simple steps.

By the time you finish the coursework and do the follow-up action steps, you will know more than most people ever will about personal financial matters. You will have developed a step-by-step financial plan that will keep you on track to reaching your life goals.

You will leave with confidence and a sense of security about your future.

You will be motivated to take the necessary action steps leading to a place of financial wellness.

The "Not-So-Secret" Keys to Success

SAY … To get you to that balanced state of financial wellness, I'm going to share with you the "not so secret" keys to success.

Now, a lot of people out there are already in a financially comfortable position. They're already not worried. And here's what many of those people say they had to do to achieve that success.

REVIEW topics for the keys to success

- **CLEAR GOALS.** Goals give us direction, hope, and purpose.

- **REASONS**. Having strong reasons why you want to understand the subject of money keeps you motivated and working toward your goals.
- **KNOWLEDGE.** Having good skills and understanding about personal finance topics gives us the confidence to take action. Become a life-long learner.
- **MENTOR/TEACHER/COACH.** Find that trusted person to guide you. Although a live person is best, you can study a knowledgeable person by reading books, for example, and pick up skills that way.
- **FINANICAL TEAM.** Build a team of trusted financial professionals who specialize in the investments you plan to make.
- **DETAILED PLAN**. Create a step-by-step plan to accomplish your financial goals.
- **SYSTEM**. Systemize and automate, then let your system work for you!
- **CONSISTENCY**. Stay on course with your plan.
- **RESILIENCY**. Plans don't always work as outlined. Bounce back from any setbacks and adjust your plans accordingly.

TRANSITION
SAY … Going through all these steps is what leads you to take positive action.

Slide 8: Main Areas of Money Management

SAY … When we talk about money management, we cover five main topic areas: assets; income; credit; insurance; and debt. Let me briefly describe each topic.

REVIEW the five main topics of sound money management.

- **ASSETS** are things of value that you own, like cash, stocks, real estate, mutual funds, bonds, gold, and silver.
- **INCOME** is money we earn from work. It's money coming in from investments or from businesses, and any other money we have coming in from any source.
- Next is **CREDIT** which basically means your ability to borrow and access money.
- **INSURANCE** is really important, and we'll talk more about it later.
- Finally, we have **DEBT**. That's all the money we owe — in overnight loans and other obligations. Being in debt isn't always bad; we can use debt to buy assets that will benefit us in other ways.

You are On Your Way

EXPLAIN that this course will help students reach that comfortable position where all the five areas are in balance.

- **ASSETS:** Emergency fund, money to invest, ability to grow wealth.
- **INCOME:** Enough money coming in to feel secure. Multiple sources of income — both from jobs and from other sources.
- **CREDIT:** Everyone can have great credit — it might just require cleaning up some past history. And having good credit can save you tens of thousands of dollars over your lifetime.
- **INSURANCE:** Feel comfortable having insurance to know that if you fall down and break a bone or get in a car accident, you're covered — You're not worried because as long as everybody's safe, you know your insurance company will take care of the damage.
- **DEBT:** Everyone can get to the spot where he or she has no debt except good debt — good debt used to purchase assets. Debt is not always bad.

Slide 9: Recap

RECAP what you've covered so far.

- The benefits of knowing how to manage your money extend well beyond one's bank account. Those benefits ext5end to all areas of life.
- The ability to live the lifestyle you want is what matters — not money.
- The subject of money is easier than most subjects we learn about in school.
- The main areas of financial literacy are assets, income, credit, insurance, and debt.
- Understanding the common money problems people face today will help you avoid duplicating other people's mistakes.
- Little adjustments can make a long and lasting difference in your finances.
- In five years or less, you can achieve financial wellness.

Topic Overview

SAY … Here's an overview of what you'll learn in each topic area of this course.

REVIEW

- **FINANCIAL PSYCHOLOGY.** You will gain a clear picture of your goal setting, relationships with money, spending and savings habits.
- **SAVING, BUDGETING & ACCOUNT MANAGEMENT.** You will know how to automate and systemize your finances so that you can save more and stay organized.
- **CREDIT, DEBT & LOANS.** You will know how to repair, build, or maintain an excellent credit history and confidently act on your debt elimination plan.
- **INSURANCE**. You will have an insurance plan that protects your assets, credit, and income, and manages your risk.
- **EVALUATING CURRENT CONDITIONS.** You will assess where you currently stand along the road to retirement and begin developing a financial plan to support your senior years.
- **INVESTMENT BASICS.** You will be introduced to investment principles and become excited to learn more about getting your money growing for you.
- **RETIREMENT JOURNEY PLANNING.** You will envision a road map toward planning your journey into retirement.

FINANCIAL PSYCHOLOGY

(Student Guide page 1)

Unit Goals

- ❖ Participants will examine their overall attitudes towards money, and identify any limiting beliefs.
- ❖ Students will understand the motivating factors that inspire them to gain financial literacy knowledge.
- ❖ Students will establish the benefits and consequences of learning financial intelligence.
- ❖ Participants will be able to articulate the importance of goals, and leave inspired to accomplish them.
- ❖ Students will identify the correlation of money and emotions, and learn to recognize how emotions play a role in their financial decision-making.
- ❖ Participants will understand the importance of setting personal goals. They will learn to connect the acquisition of solid money skills with successful goal achievement.

Slide 10: Motivation

Student Guide, page 1

READ the following quote aloud:

> *"Money frees you from doing things you dislike. Since I dislike doing nearly everything, money is handy." Groucho Marx.*

INSTRUCT participants to reflect on the quote and write their thoughts in the **Warm-Up** exercise (*Student Guide,* page 1). Have students share their thoughts; then ask them what they don't like doing. Have some fun with the responses.

ASK ... What does motivation mean to you?

ALLOW the class to respond; then discuss a few of the answers.

ASK ... Is money itself the real motivator — or is it *what money can get you*?

Money and Success

SAY ... Your motivation to learn about money plays a factor in your overall financial success. What are some things you would miss out on if you don't handle your money situation?

INSTRUCT the participants to **write down their answers**, and ask for volunteers to share their thoughts (*Student Guide,* page 1).

SAY ... Here are some examples of how gaining financial skills influences your lives:

- Certain lifestyle.
- Helping loved ones.
- Free time to do what you want.
- Positive effect on emotions (reduced stress and worry).
- Making the world a better place to live.

Slide 11: For Your Consideration

Student Guide, page 1

REFER the students to the **Belief Statement Activity** in their *Student Guide*, and have them write down their answers to the following questions:

- When you achieve a state of financial independence and security, how will you feel?
- What motivates you to work toward financial independence?
- What motivates you to pick up the skills you'll learn in this course?

After the participants are finished writing their answers, you may ask for volunteers to share their thoughts.

SAY … So do we all agree that you need to know how to handle your money in order to do what you want and avoid many of the things you don't want to do?

Get their verbal commitment.

Money and Emotions

REVIEW the following emotions:

- Happiness
- Sadness
- Stress
- Greed
- Fear

EXPLAIN to the participants that all these feelings relate to a person's finances.

Slide 12: Financial Action Plan

Student Guide, page 2

SAY … Next, you're going to start creating your own financial action plans toward accomplishing your dreams.

ASK students how they envision their financial lives at various age ranges.

EXPLAIN that, while thinking years into the future may be hard, it's important to start setting detailed goals. Have students include all their lifestyle choices for each age range, for instance, trips; toys; living arrangements; cars; relationships; and family choices.

ASK students to think of a personally motivating dream, one they want to accomplish either during their retirement years or when they reach financial independence.

ENCOURAGE participants to choose a goal that's challenging yet achievable. Have them complete the questions in the activity **Creating Your Own Financial Plan** (*Student Guide*, page 2).

Creating Your Own Financial Action Plan

I will achieve financial independence or retire by [date] ______________ and I will feel _________________ knowing that I am able to ________________.

Within the first year of attaining financial independence or retirement, I have: ____.

Within the fifth year of attaining financial independence or retirement, I have: ____.

Within the tenth year of attaining financial independence or retirement, I have: ____.

The big project I have accomplished at some point during my retirement years is: ____.

Have student list lifestyle choices they're making now that may have an impact on their future dreams and goals.

To get students to take action immediately, have them complete the statements in the **Financial Freedom Activity** (*Student Guide*, page 3).

Financial Freedom

Within <u>one month</u>, I will feel great knowing that I: _____________________.

Within <u>six months</u>, I will feel great knowing that I: _____________________.

<u>This year</u>, I will feel great knowing that I: ______________________________.

TRANSITION

SAY … The first step toward handling your money situation positively is to set lifestyle and financial goals.

Setting Goals

Student Guide, page 4

SAY … What is a goal? What is the difference between goals and dreams?

FACILITATE group discussion based on students' answers.

EXPLAIN goals in context.

SAY … Goals are essentially a person's dreams that are written down with a detailed plan for achieving them. Most people have dreams; very few have specific plans for achieving them.

INFORM students that today you'll be helping them mold their dreams into actionable plans.

Benefits of Setting Goals

Student Guide, page 4

SAY … If you've ever aspired to be comfortably secure or financially independent – even to be a millionaire — reaching those aspirations requires goal-setting. Just as in sports, you can't score without a goal … right?

EXPLAIN that many people who have achieved financial independence have noted how important it is to write down your goals. Writing your goals down helps you use mental imagery to focus your thinking – actually rewiring your brain. That helps you achieve more of your goals.

SAY … Setting goals for managing money and achieving life success has many benefits.

REVIEW benefits of setting goals

- **MOTIVATION**. Goals motivate you. Your life is moving toward something instead of steering off-course.
- **SAVING VS. SPENDING.** How much of your monthly paycheck should you save? How much should you spend on coffee and eating out? These are good questions.
- **FREEDOM.** Goals liberate you from constant worry and wondering what you're going to do with your life.
- **SCORING.** You achieve success by scoring. How can you score if you don't even know where the goal is?

SAY … Goal setting can help give your life direction.

Slide 13: S.M.A.R.T. Guidelines

Student Guide, page 4-5

SAY … There is a proven technique for making your goals reachable. It's called the "**S.M.A.R.T.** guidelines."

S – SPECIFIC, SIGNIFICANT
Be **specific**: describe what you want to accomplish in clear and specific terms that you can visualize. **Significant:** make sure your goals are for what ***you*** want and match your personal interests and values.

M– MEASURABLE, MOTIVATIONAL.
You must be able to **measure** your goals so you'll know when you get there. And your goals should motivate you to move to the next level and beyond!

A – ATTAINABLE.
Goals must be **attainable**. For instance, when calculating your potential retirement date, it's important to use savings and rate of return figures that are within reason.

R – RESULT-ORIENTED, REASONS.
Result-oriented: always phrase your goals in the positive. "I accomplished. I have. I am enjoying." Positive phrases direct your mind to focus on outcomes. **Reasons**: why do you want to accomplish the goal? Understanding your reasons gives you inspiration.

T – TIME DRIVEN.
Good goals are **time-driven**. In other words, give yourself a deadline with a specific date.

EXPLAIN that well written goals move towards a common end; they do not contradict. For instance, having two goals of "saving enough money by the end of summer to buy a Sony Plasma TV" and "taking the summer off to travel" contradict each other. You would only be able to accomplish one or the other. You must decide which is more important to you: TV or travel?

INSTRUCT students to create a list of four well written goals that do not contradict one another (*Student Guide,* page 6).

Writing SMART Goals

Student Guide, page 6

SAY … Here are some steps to follow once you've written down your goals using the **S.M.A.R.T.** guidelines.

- **PLAN OF ATTACK.** Write a step-by step plan for reaching each goal. It's like climbing stairs. Without steps, how can we ever move up?
- **REVIEW YOUR GOALS OFTEN.** Write your goals on index cards and tape them in places you will see every day. Keep them in the forefront of your mind.
- **SEE IT, BELIEVE IT: VISUALIZE YOUR GOALS COMING TRUE.** See, hear, smell, touch, and feel what it will be like to accomplish your foals. Visualization is like daydreaming with a purpose.
- **WHAT YOU THINK ABOUT, YOU BECOME.** You can get whatever you want in life if you just change your thoughts.

Financial Psychology Review & Unit Questions

RECAP the Financial Psychology section.

- Your motivation to learn about money plays an important role in your overall financial wellness.
- You understand how your emotions relate to your personal finances.
- You understand that the first step down the path toward handling your money situation positively is to set lifestyle and financial goals.
- You are aware of the benefits of financial goal-setting.
- You know how to set good goals using the S.M.A.R.T. guidelines.
- Once your goals are written down, there are steps you can follow that lead to successful goal achievement.

INSTRUCT students to complete the Financial Psychology Unit Questions (*Student Guide,* page 7).

Financial Psychology Unit Questions

1. What are two ways that money can affect your dreams?

    a. ____

    b. ____

2. What are two things you can do to ensure that you achieve your dreams, regardless of money?

    a. ____

    b. ____

3. What is the difference between a ***dream*** and a ***goal***?

    ____

    ____

4. Why is it important to set and write down goals?

    a. Goal-setting provides me with a plan to turn my dreams into reality.

    b. Having written goals is motivating and provides direction.

    c. Goal-setting gives me an opportunity to show off to others.

    d. Both "a" and "b".

5. The goal-setting acronym S.M.A.R.T. stands for which of the following:?

    a. Secure, Marketable, Assertive, Reliable, Talented.

    b. Specific, Measurable, Attainable, Results-oriented, Time-driven.

    c. Sophisticated, Mutable, Airtight, Relative, Thought-based.

6. Which of the following are important strategies to help you achieve your goals?

    a. Creating a plan of attack that describes each step along the way.

    b. Visualizing my goals.

    c. Telling other people about my goals whenever I have a chance.

    d. Reviewing my goals often.

    e. "a," "b," and "d".

(Student Guide page 8)

Section Goals

- ❖ Students will understand the difference between wants and needs. They will apply this understanding to determine wants from needs when making purchases.
- ❖ Participants will develop a basic understanding of how to live beneath their means and how to avoid spending traps.
- ❖ Students will build an understanding of all the costs incurred with the purchase of a car, and be able to determine vehicle affordability.
- ❖ Students will build an understanding of the costs associated with renting a place to live and how landlords qualify tenants.
- ❖ Participants will have the skills necessary to maintain working savings and budget plans.
- ❖ Students will develop their personal budgets.

SLIDE 14: Savings and Budgeting

GOAL — Students will build awareness of the importance of budgeting and learn how to budget. They will understand costs incurred when purchasing a car and renting a home, and will learn to budget these items accurately.

TRANSITION
SAY … Next, we're going to talk about learning to budget our money.

Slide 15: Budgeting Benefits

ASK …Why do you want to learn how to budget?

DISCUSS their answers.

SAY … Budgeting has lots of benefits.

REVIEW the benefits illustrated on the slide.

- Budgeting helps you stay in control of your money.
- You'll have more money each month, both to save and to spend on things you enjoy.
- Following a budget saves you money over time and helps you earn more income.
- Sticking with a workable budget protects your credit rating, so you have access to more capital.
- Keeping with a budget builds confidence.

SAY … Believe it or not, most people don't have a budget. That means they're likely to have overdraft fees, late payment fees, bad credit, and lots of worry because they don't know how much money they have. You're going to learn how to create a budget and stick with it so you can avoid all these issues.

Savings

SAY … I'd like you to start thinking about **saving** as "paying yourself first."

REVIEW saving topics:

- Saving is how you'll be able to do fun things now while you achieve security later.
- You need both a long-term and a short-term savings plan in place. The keys to saving success are consistency, time, knowledge, and increasing your rate of savings over time.
- Long-term saving is for things down the road:
  - Retirement
  - College
  - starting a business
  - investing.
- Short-term saving is for fun things you want to do now
  - Travel
  - Toys
  - Funs
  - Enjoying life experiences

TRANSITION

SAY … Before you start learning about creating a budget, we need to talk about the difference between NEEDS and WANTS.

Live Below your Means

Student Guide, page 8

SAY … Let's talk about NEEDS versus WANTS. What is the difference?

FACILITATE a discussion about their answers.

REVIEW

- **NEEDS** are things you *must have* to survive (e.g., food, shelter, clothes).
- **WANTS** are things you *wish you had* but you don't need for survival (e.g., house on the beach, $200 jeans).

SAY ... Think of it this way: You NEED food to survive but you don't really NEED a $100 lobster dinner. That dinner would be considered a WANT.

INSTRUCT students to list three needs and wants in their *Student Guide, page 8***.**

SAY ... Paying for your NEEDS first and waiting until you can afford your WANTS is how you live below your means. And that's how we want to live — below our means.

EXPLAIN that there are three ways you can choose to live:

- ABOVE your means — short-term fun; medium- and long-term stress.
- AT your means — short- and medium-term fun; long-term stress.
- BELOW your means — some sacrifices initially; short-, medium-, and long-term fun.

A good budget helps you stop wasting money on things that are not important to you so you can spend money on those things that you truly enjoy.

SAY ... Here's something you might not know: Most average millionaires live below their means. They drive affordable cars, own modest houses, shop for the best price, and are good stewards of their money.

Learn to Save

TRANSITION

SAY ... Understanding your NEEDS and WANTS is the first step in creating a budget that lets you live below your means. To get us started learning how to budget, we're going to play the Budgeting Game.

The Budgeting Game

Student Guide, page 8-16

GAME SET-UP: Divide students into groups of 3 or 4 and assign each group a character.

- Provide the specific ***Character Worksheet*** (*Student Guide,* pages 11 – 16) and a copy of the ***Character Lifestyle Choices Guide*** (*Student Guide,* page 9) to each group .
- Student may use a scratch piece of paper or the **Budget Worksheet** (*Student Guide,* page 10). If students decide to use the **Budget Worksheet** make them aware that not everything will fit into place nicely. The idea is to challenge them to categorize expenses and income appropriately; not provide a “cookie-cutter” template.
- Explain that the objective of the game is to help the character reach his or her stated goal.
- Instruct students to have one person in the group read aloud the character’s story. Have each group work together to adjust the character’s lifestyle choices to meet his or her stated goals. Give students 10 to 15 minutes to complete the story.
- Ask one person from each group to read the character’s story to the entire class. Ask someone else from that group to share how they helped the character meet his or her financial goals.
- Open the class up for discussion after each group presents. Make notes on the board of key points, lifestyle choices, and other items of interest.
- When all presentations are finished, discuss the key points on the board.

Character Lifestyle Choices

Use the guide below to help your character accomplish his/her goals.

HOUSING (includes rent, water, and gas/electricity)

- ☐ **$400—** You get a small bedroom and share a bathroom with two other roommates. Your apartment is in a bad location, and you don't feel safe when you get home late at night.
- ☐ **$650—** You have a small place that's in OK shape. It's located in a fairly safe area and close to work.
- ☐ **$1,200—** You have a nice place in a gated community. When people come over they are impressed.

CAR (includes monthly payment, insurance, and gas)

- ☐ **$300—** Your car looks like a piece of junk, but it's paid for and gets you around.
- ☐ **$500—** You have a nicer-looking used car that gets good gas mileage.
- ☐ **$900—** You're turning heads with your ride.

BASIC NEEDS

- ☐ **$400—** This covers electric, Internet, cell phone, and really cheap food. A typical meal might include mac & cheese, Top Ramen, tuna, peanut butter & jelly sandwiches, and tap water. You would have no money to eat out.
- ☐ **$800—** This covers electric, Internet, cell phone, basic cable, and healthier food at home. You can eat out a few times a week.
- ☐ **$1,400—** This covers electric, Internet, cell phone, deluxe cable channels, home phone line, and good healthy food. You can eat out most meals and enjoy nicer meals occasionally.

CLOTHING

- ☐ **$50—** You pick up a new piece of clothing every other month and have decent clothes for most occasions.
- ☐ **$175—** You get a complete new outfit every month or two.
- ☐ **$450—** You get a complete new outfit, with accessories, every month.

ENTERTAINMENT

- ☐ **$100—** You go out with friends and family a couple of times a month. You try to find free or inexpensive things around town to do for fun.
- ☐ **$200—** You usually go out with friends or family to eat at least once a week. A typical weekend includes one activity with friends and a night at home playing games or watching videos.
- ☐ **$300—** You like to go out to dinner after work. A typical weekend includes eating out with friends, a movie with family, and whatever activity is going on in your city (concert, festival, etc.). You are rarely home.

TOYS

- ☐ **$100—** You don't buy a lot of new toys but you like to buy new apps, music and games for those toys that you do have.
- ☐ **$200—** You like your toys but try to limit your purchases to only a few each month.
- ☐ **$500—** You have to have all the latest gadgets.

TRAVEL

- ☐ **$100—** You do a little traveling but usually stay in the homes of friends or family.
- ☐ **$200—** You save up to take one big vacation a year.
- ☐ **$300—** You and your family try to take at least one mini-vacation every long weekend. You also save up for a big vacation every year.

SAVINGS

- ☐ **$50—** You save a little here and there.
- ☐ **$150—** You save regularly each month.
- ☐ **$250—** You keep your emergency fund high and also save for big purchases.

GIVING BACK

- ☐ **$50—** You give small amounts when opportunity presents itself, i.e., when you run into Girl Scouts selling cookies.
- ☐ **$100—** You give a little each month to charity.
- ☐ **$200—** You have become very successful and believe it is very important to pay it forward. You have a few charities to which you give regularly.

CHARACTER:	CARL
JOB(S):	Office Mail Room & Security Guard
TAKE-HOME PAY:	$2,147

Carl likes to live large. He has a brand-new car, the latest clothes, and rents an expensive apartment. Although he appears wealthy, he has no money in the bank. He has $12,650 in credit card debt and has to work two jobs just to pay his bills. This month he is late on his car payment, so the credit card company has increased his minimum credit card payment.

People in Carl's life are starting to become upset with him. He never has enough money to take his girlfriend out. When he goes out with friends, he never pays his fair share and they're getting tired of subsidizing him. He's taking a big risk because he has no medical or car insurance. If he gets sick or has an accident, he risks being sued and having money automatically deducted from his paycheck until the judgment is paid.

Carl asked both his employers for a raise, but was denied. He messed up a few times at work because he was worried about his bills, so he cannot be promoted within his company. He works 65 hours a week: at an office mail room during the day and as a security guard at night. His gross pay is $3,520 per month but after taxes he only brings home $2,147 (rounded).

CARL'S GOAL is to pay off all his debt in one year and take a trip with his friends that will cost $1,000.

Can you help?

INCOME

Gross Pay)		$ 3,520
Federal tax	25%	
State taxes	6.35%	
FICA taxes	7.65%	
LESS Taxes (39%)		- $ 1,373
Take-Home Pay		**$ 2,147**

EXPENSES

Housing	$ 1,200
Car *(incl. gas & insurance)*	$ 750
Needs (elec, ph, food) *(incl. electric, phone, food)*	$ 700
Clothes	$ 400
Entertainment	$ 100
Medical Insurance	$ 0
Toys	$ 0
Credit Card Debt $12,650 at 22%	
Minimum payment	*$360 mo.*
To pay off in a year	*$1,286 mo.*
Student Loan Debt	$ 0
Travel	$ 0
Friends & Family	$ 0
Savings	$ 0
Giving Back	$ 0
Monthly Expenses	**$ 3,510**

SUMMARY

Take-Home Pay	**$2,147**
LESS Expenses	**- $3,150**

Carl is adding debt of .... $1,363 per month.

CHARACTER:	TONYA
JOB(S):	Sales
TAKE-HOME PAY:	$3,050

Tonya has a well-paying job in sales. She doesn't like her job much but it pays the bills. She has always loved design and working with animals. She wishes she could be designing marketing material and advertisements for a nonprofit that helps abused animals.

Tonya graduated from college with a Bachelor's degree in communicatoins. Since high school, she has been volunteering once a month for a nonprofit that helps abused animals. Her seume for her dream job is not the strongest, but it would be good enough to get her an interview. To strengthen her chances of getting the job, she's practicing her interviewing skills with friends and creating marketing material to show potential employers.

She recently interviewed for a position at a job she would love to have, but the pay is too low for her to pay her current bills. Her take-home pay at the potential job would be only $2,750. Right now, her gross income is $5,000 a months and she brings home $3,050 after taxes.

TONYA'S GOAL is to find a way to accept her dream job at the lower take-home rate, and still meet her expenses.

Can you help?

INCOME		
Gross Pay)		$ 5,000
Federal tax	25%	
State taxes	6.35%	
FICA taxes	7.65%	
LESS Taxes (39%)		- $ 1,950
Take-Home Pay		**$ 3,050**
EXPENSES		
Housing		$ 800
Car *(incl. gas & insurance)*		$ 550
Needs (elec, ph, food) *(incl. electric, phone, food)*		$ 700
Clothes		$ 400
Entertainment		$ 500
Medical Insurance		$ 75
Toys		$ 200
Student Loan Debt		$ 150
Travel		$ 150
Friends & Family		$ 200
Savings		$ 0
Giving Back		$ 50
Monthly Expenses		**$ 3,840**
SUMMARY		
Take-Home Pay		**$ 3,050**
LESS Expenses		**- $ 3,840**
Tonya is adding debt of ..... per month.		**$ 90**

CHARACTER:	MELANIE
JOB(S):	Brand Representative
TAKE-HOME PAY:	$1,625

Melanie is a single mom who can't count on money from her ex-husband. She just took a job as a brand representative for a linen company, and works 50 hours per week. She makes $2,700 gross and takes home $1,625 after taxes. When she is working outside the office, the company also pays for her food, covering about ten days out of each month.

Melanie has built a reputation as a good worker, and has developed a good network among people in the industry. She has always enjoyed sewing and picks up side jobs from time to time. Her sewing machine is old, and she misses out on jobs because it takes her three times longer to complete projects than it would with a newer machine.

MELANIE'S GOAL is to have six months of rent, car, needs, medical, and student loan debt in her savings account within one year. These expenses total $1,225 per month so Melanie needs a total of $7,350 saved. Currently, she already has $5,900, and the latest sewing machine will cost her $2,000. If she invests in the sewing machine, she could earn an extra $400 per month. She has met with many people and has asked a successful businessperson from her network to be her mentor. She thinks that within a year her sewing business can be earning $1,000 to $2,000 each month.

Can you help Melanie meet her goal?

INCOME

Gross Pay)		$ 2,700
Federal tax	25%	
State taxes	6.35%	
FICA taxes	7.65%	
LESS Taxes (39%)		- $ 1,053
Take-Home Pay		**$ 1,625**

EXPENSES

Housing	$ 400
Car *(incl. gas & insurance)*	$ 350
Needs (elec, ph, food) *(incl. electric, phone, food)*	$ 250
Clothes	$ 0
Entertainment	$ 100
Medical Insurance	$ 75
Toys	$ 50
Credit Card Debt	$ 0
Student Loan Debt	$ 150
Travel	$ 0
Friends & Family	$ 100
Savings	$ 122
Giving Back	$ 50
Monthly Expenses	**$ 1,625**

SUMMARY

Take-Home Pay	**$ 1,625**
LESS Expenses	**- $ 1,625**

Melanie has ....$ 0 money left over, but is saving $122 each month, and has the potential to earn another $400-$2,000.

CHARACTER:	NATASHA
JOB(S):	Manager
TAKE-HOME PAY:	$3,660

Natasha spent a year and a half working a low-paying, entry-level job to build up the skills to get the job she always wanted. Next week she is starting her dream job. She will be managing a team of buyers for an import/export business. This new job pays her $6,000 per month gross, and she will take home $3,660. Her medical insurance is paid; she has a company car; and she gets a company credit card so she can take clients out to eat many times a week. She will be able to travel the world, all expenses paid.

Although Natahsa is a few years away from launching her own company, she has started to prepare now and is investing $200 per month in her future business. This early investment in her business has included expenses like seminars, books, and networking with like-minded people on social networking sites.

NATASHA'S GOAL is to save $5,000 in ten months, without touching her current savings and without taking any money away from starting a business. She plans to spend $1,000 to rent out a nightclub and have a party for her and her two best friends who all have birthdays in the same month.

Can you help Natasha meet her goal?

INCOME

Gross Pay)		$ 6,000
Federal tax	25%	
State taxes	6.35%	
FICA taxes	7.65%	
LESS Taxes (39%)		- $ 2,340
Take-Home Pay		**$ 3,660**

EXPENSES

Housing	$1,400
Car *(incl. gas & insurance)*	$ 0
Needs (elec, ph, food) *(incl. electric, phone, food)*	$ 800
Clothes	$ 0
Entertainment	$ 300
Medical Insurance	$ 0
Toys	$ 200
Credit Card Debt	$ 0
Student Loan Debt	$ 220
Travel	$ 0
Friends & Family	$ 200
Savings	$ 190
Giving Back	$ 150
Starting a Business	$ 200
Monthly Expenses	**$ 3,260**

SUMMARY

Take-Home Pay	**$ 3,660**
LESS Expenses	**- $ 3,260**

Natasha has .... $ 400 left over each month and is investing in her business and saving $190 per month.

CHARACTER:	RONNIE
JOB(S):	**SALES**
TAKE-HOME PAY:	$1,500

Ronnie got into some trouble and has just been released from prison. Fortunately, his brother owns a company and pays Ronnie $1,500 a month, cash under the table, so no taxes are taken out. Business has been slowing down, and Ronnie is concerned about what might happen if it drops further.

Ronnie lives with his brother and tries to contribute what he can toward the groceries, but is moving out at the end of the month. He is also doing a lot of volunteer work at nonprofits to build his resume for the future. Although he doesn't have much free time, he feels good that things are finally starting to fall into place for him.

RONNIE'S GOAL is to save $1,000 to pay a lawyer to get his record expunged. He still owes the court $1,500 in reparations and court fees. He wants to purchase a cheap car, so he needs $2,500 to pay cash for it. He also wants to build up his emergency savings to $2,500 in case his brother's work slows down. Ronnie wants to move out next month.

Help Ronnie decide on the best choices he should make (rent, car, needs, clothes, etc.) to be able to afford these other goals.

INCOME	
Gross Pay)	$ 1,500
LESS Taxes	- $ 0
Take-Home Pay	**$ 1,500**
EXPENSES	
Housing	$ 0
Car *(incl. gas & insurance)*	$ 0
Needs (elec, ph, food) *(incl. electric, phone, food)*	$ 400
Clothes	$ 50
Entertainment	$ 0
Medical Insurance	$ 0
Toys	$ 0
Credit Card Debt	$ 0
Student Loan Debt	$ 200
Travel	$ 0
Friends & Family	$ 100
Savings	$ 0
Giving Back	$ 0
Continuing Education	$ 0
Monthly Expenses	**$ 750**
SUMMARY	
Take-Home Pay	**$ 1,500**
LESS Expenses	**- $ 750**
Ronnie is able to save......	**$ 750**

this month, but this will change once he moves out.

CHARACTER:	MARIA
JOB(S):	Business Owner
TAKE-HOME PAY:	$17,040

Maria started a catering company in high school, and now she is making $24,000 per month. Because she is a business owner and has a good accountant, she legally pays less in taxes (only 29%) and brings home $17,040 each month.

She likes the finer things in life and her closet is filled with clothes she's never worn. She is impulsive and does not plan for her purchases. If she likes it, she buys it — she never looks for sales or discounts. She often travels last-minute and pays a lot more because she doesn't book tickets in advance.

MARIA'S GOAL is to get out of debt this year, have $10,000 saved for emergencies and another $5,000 to invest in new equipment for her business. The new equipment will generate additional revenue of $2,400 per month.

Can you help Maria meet her goal?

INCOME

Gross Pay)		$ 30,000
Federal tax	15%	
State taxes	6.35%	
FICA taxes	7.65%	
LESS Taxes (29%)		- $ 8,700
Take-Home Pay		**$ 21,300**

EXPENSES

Housing	$ 3,600
Car *(incl. gas & insurance)*	$ 1,250
Needs (elec, ph, food) *(incl. electric, phone, food)*	$ 2,100
Clothes	$ 1,700
Entertainment	$ 2,700
Medical Insurance	$ 400
Toys	$ 2,800
Credit Card Debt $35,600 at 22%	$ 712
Minimum payment	*$712 mo.*
To pay off in a year	*$1,286 mo.*
Student Loan Debt	$ 700
Travel	$2,500
Friends & Family	$ 600
Savings	$ 0
Giving Back	$150
Monthly Expenses	**$ 19,212**

SUMMARY

Take-Home Pay	**$ 21,300**
LESS Expenses	**- $ 19,212**

Maria has an extra .... $2,088 per month but she doesn't know where that money goes.

GAME FOLLOW-UP: Discuss the Budgeting Game with the students

ASK ... Was it easy or hard to help the character reach his or her goals? Did any of the characters remind you of yourself? Did you learn anything about yourself by going through the exercise? If so, what did you learn?

FACILITATE a discussion with the students

TRANSITION

SAY ... Next, we're going to apply some of those budgeting skills to ourselves. We'll start by talking about how budgeting can make a difference in our lives.

Slide 16: Savings Goals

ASK each of the following questions found on the slide, wait for students to respond, then reveal the answer.

- Can you name a celebrity that recently went bankrupt?
  ANSWER(S): Donald Trump, Larry King, MC Hammer, Marvin Gaye,
- What percentage of lottery winners waste all their winnings within a few years?
  ANSWER: 70%
- How many NBA and NFL players are broke or bankrupt within five years of retirement?
  ANSWER: More than 60%
- The majority of people go through challenging money situations. Why?
  PROMPT the response that they were never taught, and schools still don't teach money skills.

SAY ... Remember, most people learn about money from salespeople, friends, or family members.

EXPLAIN that these statistics show how important it is to learn about money. You don't want to be one of these statistics. No matter how much money you have, learning to budget makes a huge difference in your life.

SAY ... There are people who never made more than $24,000 a year, yet who are millionaires now. The book *The Millionaire Next Door* is full of examples. Did you know that most millionaires are pretty cheap? They just became good at the basics — saving and investing. Lots of millionaires drive used cars and keep their bills low.

SAY ... Your savings plan is a big part of your budget. Here are some sample goals for building your savings plan. These are good solid ways to move your financial situation in the right direction.

REVIEW saving goals:

- **GOAL #1.** Have emergency money— equal to at least two months' worth of your bills— set aside just in case something happens.
- **GOAL #2** Make a plan to deal with any debt you have
  NOTE: Tell students that you'll talk more about dealing with debt later.
- **GOAL #3.** Continue paying off your debt, and work on building your emergency fund up to six months' worth of your bills so you'll have enough money to start investing.
- **GOAL #4.** Start learning about investing so that you'll be ready when the time comes.
- **GOAL #5.** Increase how much you save each month over time. For example, if you get a raise at work, start saving half of your pay increase before you get used to having it to spend. You'll be surprised how fast it adds up!

TRANSITION

SAY ... Now I'm going to ask each of you to start working out your own personal budget. We'll start by taking inventory.

Financial Inventory

Student Guide, page 17- 18

SAY ... This section is about taking inventory of your current financial position. Taking inventory can be challenging because, as we discussed earlier, money brings up a lot of emotions.

Depending on many factors, this section might increase your stress levels. But it is important for you to think about the tips you learned earlier to overcome those emotions.

SAY ... If taking inventory of your current financial situation worries you, it might help to know that many graduates of the course felt the same way. But after completing the coursework, they reported feeling much better — more confident about their finances and secure in having an action plan to follow. You also can feel more confident, secure, and happy when you've graduated the course.

EXPLAIN that it's important to have an accurate picture of where you are at the start.

SAY … I encourage you to work through any stressful areas that may come up while you work on your personal budget and current financial position. Be sure to enter the correct figures.

Slide 17: Current Budget

Student Guide, page 18

DISCUSS common emotions, and congratulate participants on taking a big step.

SAY … Most people will never create a written budget.

REFER participants to the budget worksheet in the *Student Guide*.

ASSURE students that *THIS ACTIVITY WILL NOT BE SHARED WITH THE CLASS.*

INSTRUCT students to complete their "current" budget chart in the **Financial Inventory Activity** (*Student Guide*, page 18) as accurately as possible. Let them know they also will use this later when they are planning their retirement needs.

SAY … For any areas about which you are uncertain or have trouble coming up with exact figures, enter your best estimates for now and mark them for review. Later, you can go through your bills to get more accurate figures.

REVIEW the instructions on the slide and direct students to complete the worksheet as accurately as possible. Ideally, have students do this as homework to get the most accurate figures.

- First, write down where you are right now.
- Next, develop a savings plan that matches your lifestyle and your long-term financial goals.
- Complete the "**GOAL**" section of the **Financial Inventory Activity**. Find areas where you can reduce your expenses and increase your savings.
- Treat this activity as a work in progress. You will make changes when your income or expenses change.
- Input all this information on your computer at home so you can easily make adjustments.

Can I Afford That?

Student Guide, page 19

SAY … Most people forget about other costs involved when they rent a place or buy a car.

EXPLAIN that when you purchase or rent a house/apartment, there are a number of expenses that you must pay each month in addition to the rent. It's important to consider all the costs before deciding to rent a place to live in.

SAY … A hidden cost is an expense not normally included in the purchase price of an item or activity, such as for maintenance, supplies, major repairs, and upgrades.

EXPLAIN that monthly rent is only one part of what you have to pay when you rent a place to live. There are many other costs that will figure into your budget. The same is true about buying a car. The monthly payment is just one piece. There are many other "hidden" costs to consider.

Slide 18: The BBB Philosophy

EXPLAIN the "BBB" philosophy— Budget Before Buying.

SAY … Always budget and include ALL the costs of purchasing something before you buy it. This is especially important when buying a car, renting a place to live, or purchasing a home.

Slide 19: Expenses for Buying a Car

Student Guide, page 19-20

SAY … Let's take a look at how this works when you buy a car.

REVIEW costs of vehicles and break the costs down into monthly payments.

- Gas
- Car insurance
- Maintenance
- Registration

ASK students to complete the **Warm-Up Activity** by defining "hidden costs" in their own words (*Student Guide, page 19)*.

INSTRUCT the students to list all the costs — both basic and hidden — involved in purchasing and owning a car in the **Lesson Activity** (*Student Guide*, page 20).

Car Purchase Example with No Plan

SAY … This is what it might look like if someone had *no clear plan* for buying a car.

REVIEW effects of no clear plan:

- They see an advertisement, and decide to go buy a new car from the dealership.
- They check out a few cars on the lot, find one they like, and decide to purchase it.
- They had some marks on their credit report that raised the interest rate from 5% all the way up to 12%, increasing the payment by $150 per month.
- They decide to buy it anyway, and drive off happy.
- A week or two later, they see an ad for a car they like more, and regret their purchase.
- A month later, they realize they can't afford this car, and they were surprised about the insurance costs.
- A year later, they are shocked by the cost to register the car and don't have enough money saved.
- They decide to sell but are upside down — the owe more than the value on the car.
- The dealer gives them a deal they can't pass up and sells them a new car, but waives the portion that they're upside down.
- The cycle continues.

Car Purchase Example with Clear Plan

REVIEW effects of a clear plan:

- **THIS MONTH.** Get an idea on how much I need to save by looking at trucks I may want and finding out how much is needed for a down payment.
- **NEXT MONTH.** Create a savings plan so I can set aside money each month.
- **IN THE NEXT THREE MONTHS.** Start building my credit so I can qualify for the truck.
- **THIS YEAR.** Find out how much insurance and registration may cost each month. Complete a preliminary budget. Always BBB — Budget Before Buying.
- SIX MONTHS PRIOR TO PURCHASE. Prequalify for a loan.
- **FIVE MONTHS PRIOR.** Research the truck. Look at ***Consumer Report*** articles; talk to friends who have car expertise; and talk to my mechanic.
- **THREE MONTHS PRIOR.** Reevaluate the decision to purchase the truck to make sure it aligns with my goals. If it does, begin searching for a car by shopping at several dealerships, and decide on the features.
- **ONE MONTH PRIOR.** Enter into a longer-term negotiation strategy.
- **PURCHASE DATE.** Do not get up-sold for any other items. Ensure that I'm within budget and all my goals are met with this purchase.

Slide 20: Expenses for Renting a Home

Student Guide, page 20-21

INSTRUCT students to complete the **Warm-Up Activity** by listing all the potential hidden costs of renting a place to live (*Student Guide,* page 20).

SAY … These are some of the costs involved in renting a place to live.

EXPLAIN each term to the students.

- Electricity
- Gas — to heat both the space and the water
- Water, sewer, and trash
- Cable TV and Internet
- Repairs
- Renter's insurance — insures your personal belongings in the apartment
- Furniture/appliances — if you have no furniture or hand-me-downs, you will have to purchase them.

ASK …Students to answer the question "What steps can you take to ensure you locate a rental property that best meets your needs?" (*Student Guide,* page 21)

TRANSITION

SAY … You can see how much difference planning and budgeting can make in your financial wellness and in your life. Next, we're going to talk about opening bank accounts.

Student Guide Questions: SAVINGS & BUDGETING

1. What is the definition of "hidden costs?"

    ____

    ____

2. Name five possible hidden costs you might incur when renting a house or apartment.

    a. ____

    b. ____

    c. ____

    d. ____

    e. ____

3. Name three hidden costs associated with purchasing and owning a car.

    a. ____

    b. ____

    c. ____

4. Which of these is the FIRST step you should take before renting an apartment or buying a car?

    a. Pick out the car or apartment of your dreams.

    b. Enter the purchase price or rent into your personal budget to calculate whether you can afford it.

    c. Check into the cost of insurance.

5. Renter's insurance is:

    a. **Insurance that covers theft or damage of your personal belongings in a rental property.**

    b. Insurance that pays your rent if you lose your job.

    c. Insurance that covers you while you're driving a rented car.

6. Which of the following is the BEST reason to buy a used car?

    a. Used cars are cheaper than new cars.

    b. You can buy a used car from a private party instead of from a dealer.

    c. New cars depreciate in value by 20-30% immediately after purchase.

ACCOUNTS

(Student Guide page 23)

Section Goals

- ❖ Students will learn the differences between banks and credit unions.
- ❖ Students will gain an understanding of how the banking system works.
- ❖ Participants will understand how traditional banking can benefit them financially in comparison to other forms of check-cashing services.
- ❖ Students will understand how to automate their finances and the importance of leveraging simple software programs to better manage their finances.
- ❖ Participants will learn how to open a bank account regardless of their financial history.

SLIDE 21: Where should you cash your checks?

Student Guide, page 23

GOAL — To provide students with an understanding of how to locate a financial institution with which to do business, and to set up the proper account structure.

SAY … First, I'd like to talk about what you do with your paychecks. Where do you think is the best place to cash your checks?

LISTEN to their answers.

REVIEW check cashing options:

▶ Check cashing business	For every $1,000 cashed, you pay about $50.
▶ Payday lenders	For every $1,000, you pay about $175.
▶ Bank or credit union	Pay about $0 to $15 per month

ASK … What would you like to do with an extra $50 to a few hundred dollars per month?

Bank Accounts

SAY … In this section, we will be talking about opening up a bank account. I know some of you are unable to open accounts with a bank or credit union because of your past history. However, we will provide you with the forms that allow you to do so.

REVIEW

- How you manage your money today will determine whether you achieve financial freedom tomorrow. An important aspect to money management is having the right accounts open.
- Your bank accounts are the backbone of your finances. Everyone needs — at minimum — a checking and savings account open. All your money will transfer from these accounts to pay your bills and to fund your investments.

Banks and Credit Unions

SAY ... In terms of a business model, banks are pretty simple. They use your money to make loans to other account holders.

REVIEW

- **SAVERS** deposit money and earn interest.
- **BORROWERS** borrow money and pay a higher interest rate to the bank.

SAY ... Banks make lots of green by lending money to people at higher rates than they pay to the people who deposit money. For example, you deposit money in a savings account and earn 2.25% interest. The bank can then lend money to other customers at 8%! The bank earns the difference.

Why do I need a bank account?

ASK ... Do you need a bank account?

PROMPT answer: Yes, everyone needs to open a bank account for several compelling reasons.

- **SAFETY** — Money held in a bank is safer than holding cash.
- **INTEREST** — The bank pays you interest every month just for putting your money in it. You can also set up direct deposit. That means your employer deposits your paycheck electronically into your checking account.
- **ORGANIZING YOUR BUDGET** — Bank accounts help you keep track of your money and organize your savings.
- **FUTURE** — Building a relationship with a bank will pay off in the future as your banking needs increase.

How to choose the right bank

Student Guide, page 24

SAY ... In order to decide which bank or credit union is right for you and your money, first you need to consider your expectations and purposes for opening an account. Is it for business, pleasure, savings, wage-depositing, eventual loans, or something else?

Choosing the Right Bank for You

SAY ... First, you want to choose a credit union that offers online banking. In today's economy, it's a feature you can't do without.

- With online banking, you're able to check balances from the comfort of your own home or office. You can pay your monthly utility, cell phone, and credit card bills electronically, without ever writing a check.

SAY ... Next, look at the costs. Banks have to be competitive so it pays to compare fees for opening and running an account.

- There are often fees for both checking and savings accounts. Additionally, the bank may charge separate fees for such things as:
  - Receiving statements in the mail;
  - Online banking; and
  - Additional checkbooks.
- Be sure to ask and compare all potential fees before settling on a particular bank.

SAY ... Lastly, you want a bank that's convenient to where you work or live.

- Since you can now access your accounts online or by phone, many bank transactions can be done without stopping in. However, it's important to check out the convenience of each ATM (Automatic Teller Machine) location.

SAY ... Remember that you want to build a long-term relationship with the bank you choose. You'll find that the longer you are a good customer, the more benefits you'll receive. Then the next time you need a car loan, investment account, student loan, or home loan, you may get better terms because of that relationship.

Past Mistakes Getting in the Way

ASK ...What if you're unable to open an account because of past mistakes?

REVIEW

- The ChexSystem identifies people who have made mistakes with former accounts.
- Banks and credit unions get a ChexSystem report prior to approving your account.
- Negative items stay on your account for five years.

Clear a Negative Report

Student Guide, page 25

SAY ... If you have a negative ChexSystem report, here's how to clear it.

DISTRIBUTE copies of the ChexSystem form letter.

REVIEW

- Order a copy of your report at https://www.consumerdebit.com/consumerinfo/us/es/chexsystems/report/index.htm
- If you owe balances to banks or credit unions, consider paying them off. Before doing so, ask them to provide you with a letter stating that you have paid in full.
- If there's an error in reporting or if the bank is out of business, use this letter to dispute the claim. To complete this form, simply replace all the text shown in *italics* with your own information. ChexSystem has 30 days to review the letter and respond to your inquiry.

CHEXSYSTEMS FORM LETTER

Mail to: ChexSystems, Inc. 7805 Hudson Road, Suite 100 Woodbury, MN 55125

Your Full Name
Social Security Number
ID number (listed on ChexSystems Report)
Address
Contact Number
Name of the bank you are disputing
Bank's Address
Account Number

This letter is about the issue with *(account number, bank)* which I dispute and which I would like your help in clearing. I am disputing both the validity of the alleged debt and the validity of your report.

The Fair Debt Collection Practices Act requires evidence that has my signature and shows I have a contractual obligation to pay. As you are aware, any negative mark on my ChexSystems report for a debt I don't owe is in violation of the Fair Credit Reporting Act (FCRA). Therefore please delete the entry in question.

My permission is required before you take any action that could negatively affect my rating with credit reporting agencies.

Full Name
Signature

SAY ... There are also banks and credit unions that will give you a second chance.

- Some may require that you deposit a certain amount of money or open another financial product, like a CD.
- This process may take a little time but saving $30 to a few hundred a month in check-cashing and payday lender fees will make it all worthwhile.

SAY ... Look at it this way: If you spend four hours clearing this up but it saves you $400 per year, you just made $100 per hour of work.

DIRECT students who are unable to open a bank account to complete the following **homework** assignment:

- Search for a bank or credit union that will allow you to open an account immediately. There are several websites online that list banks that may open your account. One of these sites is http://chexsys.tripod.com/goodbanks.html.

Account Options

Student Guide, page 26

SAY ... There are several different types of accounts you can open at a bank or credit union. At the minimum, you should have a checking and a savings account.

REVIEW account options:

- A **checking account** is where most of your transactions will take place. This is the brain of your bank account and will handle most of the ins and outs. For this reason, checking accounts pay little or no interest.
- **Savings accounts** pay interest for each day you leave your money on deposit. These are the accounts where you deposit money for short-term and long-term savings. As the amounts in your accounts grow, the effect of compound interest gets really exciting.
- Once you have chosen the bank that best suits your needs, immediately open a checking account and a savings account. This is the first step to getting your finances in professional order.
- Your savings account is where you will have your emergency fund – enough cash set aside to cover six months of your expenses. Additionally, this will be the resting spot for your long-term savings before it is moved into an investment. You also want to have money set aside for fun. It helps if you keep the "fun fund" separate from your long-term account. This way you will know exactly how much you have left over to spend on vacations, toys and clothes for you, and gifts for others.
- Savings and checking accounts can be linked so you can transfer money between accounts. Linked accounts can make saving money easier, plus all your accounts can be monitored with ease.
- It's important to have a good understanding of your account balances, so you know how much money you have available to spend at any time. In the past you may have seen people balancing their checkbooks by hand – that's what we had to do 40 years ago. In today's age the online banking feature will balance your accounts for you.
- Use the online features to write checks, pay bills, and transfer money. The system will do the math for you, but it's important not to spend more money than you have in the account or you'll risk being overdrawn. "Overdrawn" means you spent more money than you have in the account and are left with a negative balance. Make sure to avoid overdraft fees by making sure you have enough money to pay your bills.

SAY ... There is no time like the present to start the habit of keeping your finances organized and paying your bills on time. Using automatic online bill pay from your bank makes this a breeze. The bank then sends a check for you, each month, for a given amount and on a date you select.

Debit Cards

Student Guide, page 27

SAY ... Once you have your bank accounts set up, you can get a **debit card.**

REVIEW debit card details:

- A debit card works like a plastic check. That is, it's just like when you write a check – money is automatically deducted from your checking account.
- You can receive a debit card from your bank or from a private organization.
- Unlike a credit card, a debit card automatically withdraws money from your checking account at the time of the transaction.
- A debit card that you receive from the bank has a few drawbacks. You can be charged over-limit fees if you exceed the amount you have in your checking account.
- A debit card from a private organization is a great way to start out. You prepay money into the account and then you can only spend the amount of money you prepaid.
- You learn how to use your plastic without being worried about incurring over-limit fees.

Automating Bills

SAY ... As I mentioned before, online bill pay is a feature you really need. Online bill pay has many advantages.

REVIEW benefits of bill-pay automations:

- Looks professional – the checks are typed out by the bank
- Payments are sent like clockwork
- You have accurate records and up-to-the-minute reporting

- Your accounts are automatically balanced

SAY … Remember to check your bank statement every month! Just one mistake – by the bank, by you, or by a third party – could cost you hundreds of dollars (or more!). The sooner you catch mistakes, the easier they are to fix. And if you do have fraudulent charges, identifying them early will save you money, too.

By developing a long-term bank relationship and using the latest online technology, you'll handle your banking in a businesslike way. Your bills will be paid on time with less effort. Your accounts are automatically balanced and the checks go out looking professional.

If You Don't Automate Your Finances

ASK for a show of hands to answer each of the following questions:

- How many of you like to write checks out every month?
- How many of you like to lose money?

SAY … If I could show you a system where you never have to write a check again but can stay in complete control of your money, one where you are able to earn extra money, would you be interested?

After listening to their responses, **EXPLAIN** that there are important steps you can take to automate your finances. Automating your finances will save you time, protect your credit, and help you earn more interest.

SAY … It's important to keep accurate banking records to avoid overdraft fees. I strongly suggest that you get into the habit of doing all your banking transactions online. For those who decide not to automate, the process is more difficult.

REVIEW ways to keep a record of your transactions:

- Keep accurate records.
- Have a detailed budget in place that also lists when each bill needs to be paid. Essentially you want to know how much money you spend each month.
- Keep a record of every transaction. Every time you use your ATM/debit card, write a check, or withdraw cash – write it down. Your bank will give you a check register to help you keep this in order.

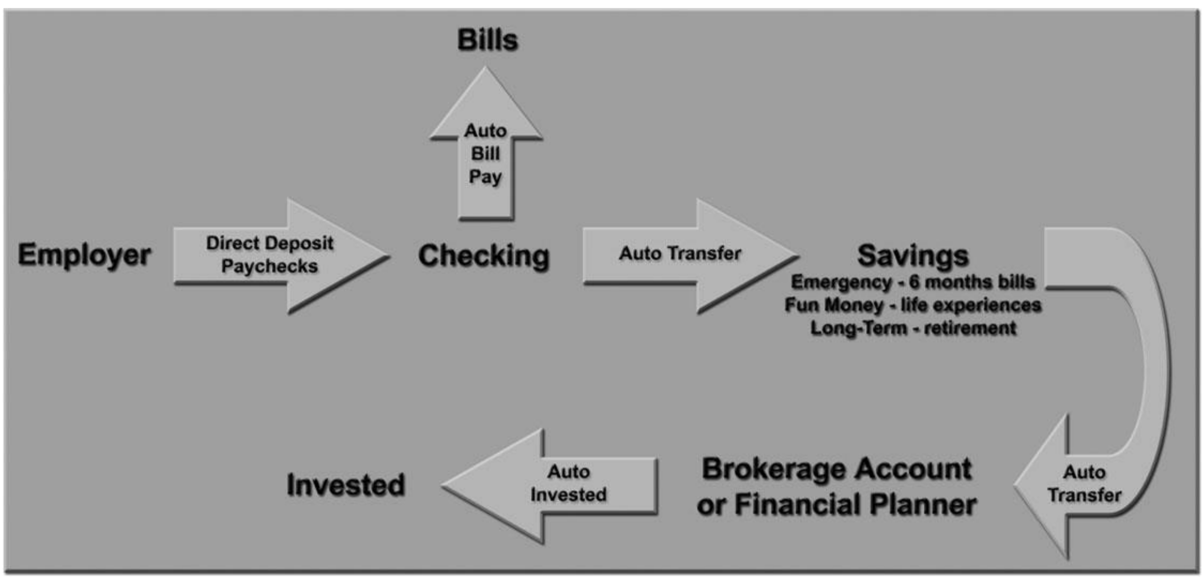
- Balance your checkbook. It's very important to remember that, although your account may show that you have money, the balance doesn't account for outstanding checks – checks you have written that have not been cashed yet – or bill payments that have not yet cleared.
- Each month review your statements to make sure the statement balance matches your check register.
- Identify any outstanding checks that have not posted to the bank and deduct them from your balance.

Slide 22: AutoX System Overview

Student Guide, page 27

SAY … For those who do automate their finances, you can use the AutoX System to track everything in one place.

EXPLAIN the diagram below.



AutoX Benefits

SAY … Using the AutoX System has many potential benefits.

REVIEW AutoX benefits:

- AutoX saves you time. No more writing checks, addressing envelopes, or buying stamps to pay your bills every month.
- AutoX saves you money, because once you have everything set up, all your bills will be paid on time. You'll avoid late fees, over-limit, and bounced check charges. You won't spend money on stamps or gas to drive to the bank.
- You will earn more money because your funds become available to you the moment your check is direct deposited.
- Since everything is paid on time every month, the system protects your credit. If there's ever a dispute, the system provides a paper trail to back you up.

Accounts Action Plan

SAY ... Here are the steps to follow in your Accounts and Budgeting Action Plan.

1. Open checking and savings accounts.

- Explain that a bank is a business, so students should shop around to find one with the best deals — like free checking, online banking, competitive interest rates, etc.
- Encourage students to open a checking and savings account this week, if they do not already have one.

TELL students that the rest of the steps are part of the AutoX System.

2. Have your check directly deposited into your account every pay period.

- Direct deposit is safer. For example, you don't have to worry about losing your check, spilling coffee on it, or the dog eating it, etc.
- Direct deposit saves you time and money. You don't have to pay anybody to cash your check, or waste gas money and time driving around to get it cashed.

3. Set up automatic bill pay so your bills are paid on time automatically every month.

- Automatic payment saves you time and money.
- If you pay your bills the old-fashioned way, you spend more than $2 in stamps for every five bills you mail. That might not sound like a lot, but think of it as two items from the $1 menu at your favorite fast food restaurant.
- If you are busy and accidentally pay your bills late, you will have to pay a late fee on each one. Late fees really add up quickly — they average $20 to $30.
- Automatic bill pay also protects your credit by ensuring that everything is paid on time every month.

- A few late bills can really hurt your credit score.

4. Have a portion of your money automatically put into your savings and investment accounts.

- Build your savings account up to equal six months of your monthly bills for emergencies.
- Once that money is saved and you're educated on investment options, you can consider investing your money.
- If you don't see it, you're much less likely to spend it.
- Every time you get a raise at work, make a habit of automatically saving and investing half of your pay increase before you ever get used to the extra money. It will add up quickly.
- By investing the same amount monthly, you protect yourself from market risk. This strategy is called ***dollar cost averaging***.

5. Open an account with Mint.com or a similar service to track all of your finances.

6. Complete your personal budget on the Excel spreadsheet that we will email you after the event. Put it into your Personal Finance folder under the title "Budget."

7. Create a savings plan that aligns with your personal and financial goals.

8. Monitor and measure your day-to-day spending. Track all your expenses for a month, put them into categories, and decide whether you're spending too much or too little in any area.

9. Review your budget often, especially when you're starting out. Make changes as you go along and whenever your circumstances change.

Activities

SAY ... I'm going to ask you to complete three activities on your own as part of getting your Accounts & Budgeting Action Plan started.

Activity #1: Locate a bank with which you want to do business. Remember that when you open a bank account, you are potentially establishing a relationship that may last quite a few years. Large national banks offer many services, some of which you may not use now but may need in the future. Building a long-term relationship with a bank means one day you will receive preferred treatment.

Make sure the bank you choose offers online banking. It simplifies your life and makes all your banking transactions available at the click of a button. It also gives other the impression that your bills are handled by a professional accountant. Use the steps we went through earlier to help you decide on the bank that's best for you.

Activity #2: Once you have chosen the bank that best suits your needs, do the following:

1. Open a checking account and a savings account.
2. Set up direct deposit with your employer.
3. Set up the automatic bill payment system.
4. Set up an automatic savings plan.
5. If you have money to invest, set up an automatic investment plan.

Activity #3: Now it's time to automate.

- Set up the online banking feature and get familiar with the features.
- Make sure to set any bill you pay on a monthly basis, so the online bill pay automatically pays the bill for you.

Accounts and Budgeting Review

Student Guide, page 29

RECAP the Accounts & Budgeting section.

- Having your accounts properly structured will save you time and money, and relieve you of stress.
- You understand your income, expenses, and savings goals and have a working budget that keeps you on course.
- You understand that your budget and savings plan will change over time, and you make adjustments when necessary.
- You are taking the necessary steps to open bank accounts.
- You have created a detailed budget and savings plan.
- You have set savings goals.
- You have the Auto X system in place so your bills are automatically paid and money is saved.
- Your account with Mint.com is open so you can view all your accounts in one place.
- You have a working budget to which you make adjustments as necessary.

ASK the students to complete the Banking Essentials Review activity and unit questions in the *Student Guide*, page 29-30.

Student Guide Accounts Unit Questions

1. What is the difference between a bank and a credit union?

   ____

   ____

2. Name three reasons why opening checking and savings accounts is a good idea.

   a. ____

   b. ____

   c. ____

3. What is the first, most important feature to look for in choosing a bank or credit union today?

   a. Someone you know works there.

   b. Online banking feature.

   c. Lots of ATMs around town.

   d. There's a branch close to where you work.

4. How often should you use online banking to check your accounts?

   a. Daily.

   b. At least once a month.

   c. Every other week.

   d. Twice a year.

5. Building a positive long-term relationship with a bank or credit union can save you money on future loans and investments. ☐ True ☐ False

6. What happens if you use your debit card to spend more money than you have in your checking account?

   a. You may be charged an over-limit fee.

   b. Nothing. Debits are covered by the bank.

   c. A bank representative will call you.

CREDIT & DEBT

(Student Guide page 31)

Section Goals

- ❖ To give students an understanding of what debit cards and credit cards are, how they work, and the differences between them.
- ❖ Students will identify the correlation between their credit history and their financial reputation.
- ❖ To help students develop a basic understanding of what credit history is and how to maintain, build, or repair their credit.
- ❖ Build awareness about identity theft and ways to prevent it.
- ❖ Participants will gain a better understanding of credit bureaus and the credit scoring system.
- ❖ Students will develop a basic understanding of how to purchase a car and the auto loan qualification process.

SLIDE 23: Credit

Student Guide, page 31

SAY ... The next section is about understanding credit and how to build a good credit history.Ask students to answer the question, "Why is having a good credit history important to you?" in their student guides, page 31

FACILITATE a discussion based on students' responses.

Slide 24: How does My Credit Rating Impact Me?

SAY ... Your credit rating has impact on your life in many ways.

EXPLAIN how credit ratings affect our lives.

- **MONEY**. Good credit saves you money. Someone with good credit can save between $5,000 and $10,000 off the total cost of an average-priced car.
- **JOBS**. Nowadays lots of employers do credit checks prior to hiring new employees. Since so many people have made credit mistakes, people with excellent credit ratings stand out.
- **ACCESS TO CAPITAL.** Having poor credit severely limits your ability to qualify for loans (college, auto, home, credit cards, etc.). If you do qualify for a loan, you'll receive poor terms (higher interest rates and other restrictions). People with good credit ratings get better loan terms and have an easier time completing the application process.
- **EMOTIONS**. Getting turned down for credit is embarrassing. And not being able to get your dream home or car when you want it can be disappointing.

What is Credit?

Student Guide, page 31

ASK ... What exactly is your credit score?
Why do you think having good credit is important?

DISCUSS their responses after each question.

EXPLAIN that your credit standing is like a report card that grades you on how well you pay back money you borrow from lenders.

- Three separate organizations (called credit bureaus) rate your credit each month — give it a grade. Lenders report the details of your loan to the credit bureaus.
  - If you always pay back things you borrow, you get an A.
  - If you pay your lenders late, you get a C.
  - And if you don't ever pay them back, you get an F.
- If your credit receives an A grade, it's easy to borrow things;
  people know you will pay them back.
- The credit bureaus combine all your information and assign you a "grade" which is called a "credit score."

ASK ... What credit grade would I have if I borrowed things and didn't pay them back?
Wait for responses and discuss. **NOTE**: They should say "F."

EXPLAIN that credit grades are computed as scores. The higher the score, the better the grade. For example, a credit score of 740 equals grade A whereas a score of 550 equals grade F.

INSTRUCT students to complete the **Credit History Warm Up Activity (***Student Guide,* page 31) that lists what doors are opened with good credit and what doors are closed with bad credit. Write their responses on the whiteboard.
Some examples include:

- Less interest to pay when borrowing;
- More opportunities to borrow for large purchases like houses or cars;
- "Rewards" from some credit cards that amount to free money/goods/services.

Slide 25: How Bureaus Rate You

EXPLAIN that credit bureaus assign your credit rating based on several factors, and place a different amount of importance on each factor.

REVIEW factors that affect credit rating:

- Whether you've had any late payments in the past. This accounts for 35% of your credit score.

- Your "debt-to-income ratio." That is, how much you owe compared to how much money you have ability to access. This accounts for 30% of your credit score.
- How long you've had credit accounts open. The longer you've had credit lines, the better you look: 15% of your score.
- It's not good to apply for credit and have your credit report run too often. How often you apply for credit accounts for 10% of your score.
- Various other details account for the final 10% of your score.

ASK what students think people might do to keep their credit scores high.

- Write responses on the board.
- Give them lots of hints to point them in the right direction.

Slide 26: Tips for Good Credit

Student Guide, page 32

SAY … There are several things you can do to earn a high credit score. Here are some examples:

- Pay bills on time. Use online and automatic bill pay to avoid late payments.
- Keep your debt (the amount of money you owe on credit cards) low.
- Have insurance to protect yourself – medical problems are the largest cause of bankruptcy, and if you get in an accident without car insurance your future wages may be garnished. That will give you a negative mark on your credit report.
- Protect yourself from identity theft – check your credit rating at least once per year for free by visiting w.ww.AnnualCreditReport.com.
- Build your credit rating. When you're young and starting out, you have no credit. That puts you in bad credit territory, so you need to use credit to build your credit rating.

SAY … Similar to grades in school. If a student never completed any tests, class work, or homework, how would they be graded? This same notion applies to credit.

EXPLAIN that when you use credit, your payback history is reported to the credit bureaus. The manner in which you pay back the lender is recorded with the bureau as a score. Each time you succeed in paying on time, you prove you can pay back money you borrow and your credit grade or score is likely to increase.

How to Build Credit

SAY … You can use credit cards to build your credit rating. But you have to be very careful.

EXPLAIN how to use credit cards to build your credit score.

- Before starting on your credit building plan, be sure to have some safety measures in place.
    - Have a written budget.
    - Be able to control your spending.
    - You've automated all your accounts using the AutoX System and/or online banking.
    - Have a minimum of three months of bills set aside in an emergency fund …
      OR … limit yourself to use only "secured" credit cards.
- Use your credit card each month and *pay the balance in full*. That's the way you can build or rebuild your credit rating without having to pay any interest.
- Monitor your credit profile at least once a year to measure how well your credit building plan is working. In other words, your FICO score should be going up each year.

Tips to Repairing Your Credit

Student Guide, page 33

SAY … If your credit score is low, there are several things you can do to improve and repair your credit.

REVIEW the methods for repairing credit.

- Get a free copy of your credit report from all three credit bureaus (Experian, TransUnion, and Equifax) by visiting www.AnnualCreditReport.com.
- Dispute all negative items on your credit report using the form letters we've provided.
- The credit bureau has 30 days to verify the information or it drops off your report.
- Continue your letter-writing campaign. You can expect some of the items to drop off, but others won't.

- If you still owe money to lenders that have put bad marks on your credit, contact each lender directly.
- Negotiate a settlement (30 – 50 cents on the dollar is common). As part of your negotiation, ask each lender to provide a letter stating that the bad item will be removed from your credit report before you pay that lender.

Slide 27: Identity Theft

SAY … You've probably heard of identity theft. That's when someone gets your personal information or account number and uses it to gain access to your money. This kind of theft is happening more and more often today, and it can happen to you if you're not careful.

REVIEW

- Every year there are about 1 million stolen cars—and 9 million identity thefts.
- Each year get copies of your credit report from all three credit bureaus: Experian, TransUnion, and Equifax. You can get all three complimentary at AnnualCreditReport.com and search for any item on your credit reports that you know isn't yours.
- If you find things that aren't yours dispute those items using the letters like we talked about earlier. Also file a report with your local police department and the FTC.
- Reduce the risk of identity theft by:
  - Shredding documents that have your account and social security numbers listed.
  - If your mailbox is unsecured, bring your mail in as soon as possible after delivery.
  - Review your financial statements for any charges you did not make.
  - Shred your ATM receipts; don't throw them away in the trash bin next to the ATM.
  - If you do not receive an expected statement in the mail, contact the company immediately.
- Enroll in an identity theft protection plan.

Credit Card Usage

ASK … Do you think people are more likely to buy something they do not need when they use a credit card? Explain why you believe your answer.

FACILITATE a discussion based on students' responses.

Debit vs. Credit

REVIEW the earlier part of the lesson.

ASK … What's the difference between buying something with a debit card and buying something with a credit card?

EXPLAIN that a credit card is something the bank (or lender) uses to lend you money to pay for a purchase and charges you interest — an amount of money on top of the cost of the item. The longer you take to pay off the item, the more interest you will pay to the lender.

SAY … To avoid interest accrual, you must pay off the purchase in full each month.

EXPLAIN that, to avoid using credit, they can save for their purchase and pay for it with cash.

SAY … The next slide will illustrate what it looks like to use credit when your credit is good vs. bad, and compared to purchasing with saved money.

DISCUSS the benefits and negatives of each decision.

Credit Card Example

SAY ... Your credit score will make a huge difference in the terms you get when you apply for a loan or a credit card.

Good Credit	
Purchases	$1,000
Interest rate	7%
Minimum payment	$10
Years to pay off	12
Interest paid	$440
Actual cost	$1,440

Bad Credit	
Purchases	$1,000
Interest rate	27%
Minimum payment	$23
Years to pay off	12
Interest paid	$2,312
Actual cost	$3,312

Make Purchase with Savings	
Purchases	$1,000
Amount saved each month	$125
Month to save $1,000	12
Interest earned in savings	$30
Actual cost	$970

SAY ... This example clearly shows how important good credit can be in your life. Think of all the things you could have spent that $1,872 on!

Why do people have Credit Cards?

ASK ... Why do people have credit cards? How does it benefit them?

EXPLAIN that credit cards can be an excellent tool to help build your credit rating.

EMPHASIZE the importance of paying credit cards in full the same month. By using a credit card and paying it off in full, they will build credit without incurring any interest expenses. Essentially, they'll be building their credit rating for free.

WARNING: Before obtaining any credit cards, make sure you have six months of your bills saved, a working budget, and are able to control your spending. Also make a commitment to yourself to pay back the balance in full each month. Only by doing so can you build your credit rating and avoid paying interest.

Slide 28: How to Efficiently Pay Off Debt

Student Guide, page 32-33

SAY … Some of you may already have some debt. If you're already in debt, take these steps to get yourself out of that situation.

REVIEW the information on the slide.

- Contact all your creditors and ask them:
  - What your current interest rate is;
  - How much you owe;
  - What the minimum monthly payment is;
  - Whether they can reduce your interest rate; or
  - Whether they have any specials.
- List all your debts on a spreadsheet, listing the credit card with the highest interest rate first.
- Pay the maximum amount on the credit card with the highest interest rate, and make just the minimum payments on the credit cards with lower interest rates.
- Once the highest-rate credit card is paid off, start working on paying off the card with the next higher interest rate and continue to make minimum payments on lower-rate cards.

SAY … Just this tip can save you 3-12 years of extra payments.

Other Debt Elimination Options

SAY … If you're truly unable to pay off your credit cards, there are some extreme measures you can take. Keep in mind that these options will ruin your credit rating for 7 to 10 years.

SAY … You must become an expert in the choices available with each option before you make a decision. Get as much information as possible and talk to experts.

- Remember that a lot of the "experts" you talk with are really salespeople — if they stand to make money from your decision, they're not impartial. So do lots of research and only believe what you've carefully researched to be true.
- Back up information by consulting more than one source.

Steps for Getting an A Credit Rating

Student Guide, page 33

SAY … Okay, let's review the steps you can take to get an 'A' credit rating.

REVIEW credit report actions:

- Get a complimentary copy of your credit report.
- Identify the areas you need to work on, and create a credit plan to address those areas.
  - If you're already in debt, create a debt reduction/debt payoff plan.
  - If you don't have a credit history yet, first save six months' worth of your bills, have a working budget, and have the ability to control your spending. Then get a credit card and pay it back in full *EACH* and *EVERY MONTH.*
- Set up the AutoX system so your bills are automatically paid on time.
- Review your medical and auto insurance to ensure that you have adequate protection in place in case something happens.
- Review your credit report annually and also three months prior to any major purchase. Consider signing up for credit protection plans.
- Build your available credit over time, and keep your debt load to a minimum.
- Limit inquiries — don't have your credit report run too often.
- Be aware and conscientious about things that might affect your credit rating.

Creating Your Plan

SAY … These are some things to consider when you're developing your credit plan.

REVIEW

- Identify areas where your credit needs improvement. (Some examples might be to stop paying your bills late; lower your total debt; or build your credit rating.) Verify that your plan still makes sense once you get a copy of the credit report.
- List those areas you need to work on, in order of importance.
- Write down how you will remedy each area.
  For example, "I will set up the AutoX system so my bills are paid on time."

- List any larger purchases you'll need to make — the ones for which you would have to get a loan, like a car or a home.
- Create a credit timeline to ensure that you'll qualify for the best terms at the time when you need to make those major purchases.
- Take action on your credit ***each month*** and work your plan to best advantage.

Credit & Debt

Student Guide, page 34

RECAP how to develop and stick with a credit plan to improve your credit rating.

REVIEW

- A good credit rating can save you hundreds of thousands of dollars.
- You'll avoid being turned down and embarrassed, and you'll get better loan terms.

ASK ... Do you remember the main components of building a good credit rating?

ANSWER: paying bills on time; keeping debts low; protecting your credit with insurance; protecting against identity theft; actively building a good credit rate.

SAY ... Now that you've created a credit plan, you have a roadmap that will guide you through the process of building an excellent credit rating — that grade 'A' credit.

- Use the Auto X system to protect your credit rating.
- Check your credit every year at a time you've scheduled in your calendar. If you don't keep a paper or computerized calendar, just schedule a time to check your credit report that coincides with a memorable date (like your birthday, anniversary, or a special holiday). Get in the habit of reviewing your credit report every year.
- Review your credit plan every year too. Make adjustments as needed, and reward yourself for making headway toward achieving the goals set forth by your plan.

ASK ... Students to complete the Credit & Debt Unit Questions (*Student Guide,* Page 34).

Student Guide Questions: Credit & Debt

1. What are three ways that having a good credit score can help you achieve your financial goals.

   a. ____

   b. ____

   c. ____

2. How is a credit score similar to a school report card?

   ____

   ____

3. How much money can a good credit history save you over the course of your lifetime?
   This answer can vary. Remind students it can range from nothing to a few hundred thousand dollars if they make larger purchases.

   ____

4. A credit score of 550 is better than a credit score of 720. ☐ True ☐ False

5. Which of the following are likely to be affected by your credit rating?
   a. Interest rates you pay on car loans.
   b. Your ability to get a job.
   c. Your qualification for a home loan.
   d. Approval of your application to rent an apartment.
   e. All of the above.

6. Identity theft has an impact on your credit rating. ☐ True ☐ False

7. Which of the following are the ***two most important ways*** to get and keep good credit?
   a. Check your credit scores annually and shred all your important papers.
   b. Have lots of credit cards and use them to pay your rent.
   c. Apply for loans often and report fraudulent charges to your bank.
   d. Pay your bills on time and keep your debt low.

8. Name three other steps you can take to maintain a good credit score.

   a. ____

   b. ____

   c. ____

QUALIFYING FOR LOANS

(Student Guide page 35)

Section Goals

- ❖ To provide students with an understanding of how lenders qualify an applicant for a loan, and the preparation process to submit an application for approval.
- ❖ Students will develop a basic understanding about financing real estate.
- ❖ Participants will understand the role of credit, income, assets, and debt-to-income ratios in qualifying for loans.

Slide 29: Car Loans

Student Guide, page 35

ASK ...Students to complete the **Warm-Up Activity** (*Student Guide,* page 35)

- What are potential benefits and drawbacks of getting a car loan?
- How can having a good credit score benefit you when purchasing a car?
- How can having a bad credit score hurt you when you try to purchase a car?

REVIEW

- The key benefit is that, if someone cannot pay cash for a car, they can still get transportation for work and daily life. A car loan can also help build their credit ratings.
- The drawbacks include having payments due, need for higher levels of car insurance, and adding a liability.

ASK for two volunteers. Seat them in front of the class facing the other students. Have each volunteer choose a car that he/she would like to purchase. Tell them you're going to explore what it's like to purchase a car.

Complete the following dialog with the class.

Tell the class: These two just went out and test-drove a car.

Ask the volunteers: What kind of cars are you thinking about buying after the test drive?

Tell the class: The first thing a car salesperson does after you test drive is run your credit report. They get on the computer and call up a record of everything about your financial history. If you owe money, if you've ever been late paying bills, if you have a lot of debt on credit cards — they will see it immediately.

Hold up a folded piece of paper.
Tell the volunteers: I have your credit reports here.

Smile at the first volunteer and say:

Very impressive credit, (sir/madam). Can I get you some water, juice, anything?
(Pretend that he/she is a valued customer whose business you want to get.)
This will be an easy process for you. All we need is your most recent employment paystub, a small down payment of $1,000 you'll give us today, proof of insurance, and you can drive off in this car today. Are you excited?
JOKE: You DO have a driver's license, right?

Look at the second volunteer solemnly and say:

Well, it looks like your credit report has a few shady areas, to put it nicely. You've got some serious damage on your credit report: late payments, failure to pay back your loans. This makes lending you money to buy a car a very risky proposition for us. So here's what we're going to need from you: your tax records for the last two years; copies of your paycheck for the last six months (to prove you have enough income to pay us); copies of your bank records for the last three months; and a large down payment of $4,000 today because your credit score is so low. We're also going to ask that you have somebody co-sign on your loan — someone who will promise to pay your car payments if you can't. This person also needs to give us all of the financial information we need form you. Oh, and because you have to pay a higher interest rate, your monthly payment is going to be $500.

Turn to the first volunteer and say:

Your payments are a lot less … only $300 per month. That means you'll save more than $12,000 on this five-year loan. You'll have a lot more money because you have good credit. What do you want to do with your extra money?
(Encourage responses: savings, giving back, etc.)

Ask the second volunteer :

What would you have liked to do with that money? How did it feel to be treated that way by the car salesperson, especially when you knew how your classmate was treated?

Address the class: Who would want to pay the $300 a month for your car? *(Request a show of hands.)* Yes, that's $12,000 you'll save — money in the bank instead of money paid to the car company in the form of interest. I can think of a lot of things I could do with that money saved. What about you?

People with good credit pay less for everything. Those with poor credit pay more for everything. How does that make you feel? What will you do to avoid paying more?

ASK ...How can having a good credit score benefit you when purchasing a car?
How can having a bad credit score impact you when you try to purchase a car?

ENCOURAGE students to include how each situation would make them feel.

Slide 30: How Credit Impacts Loan Terms

SAY … You know your credit rating makes a difference when you apply for a loan. Now we're going to talk about some of the specifics lenders look at when they decide whether they're willing to lend you money, or if they think you're too big a risk.

- The definition of a "loan" is when someone lets you borrow some money and they expect you to pay it back. When you go to apply for a loan, the first thing a lender looks at is your credit. Your credit score (rating) will partly determine how much risk the lender is taking that you won't pay the money back.
- Lenders look at other things too: your income, how much debt you owe, and your assets (like savings and investments). On a big purchase a lender will ask that you put down some collateral (like if you buy a car, the car itself is the collateral).
- Your credit score will determine the rate of interest the lender charges you. The worse (lower) your credit score, the higher your interest rate will be.
- Look at the example here to see the effect different credit scores have on a home loan for $150,000.

Credit Score	Rating	Interest Rate	Monthly Payment
Above 740	A	5%	$805
Around 660	C	7%	$998
Under 600	F	9%	$1,206

- Having good credit in this example could save you $400 per month and almost $5,000 per year. Over a 30-year loan, you would save more than $140,000.

ASK … What would you rather do with $140,000?

Loan Manager

Student Guide, page 35

ASK to borrow an item from a student. When you have the item, tell the student that you are not going to pay him/her back, and walk away.

ASK to borrow something else from another student. Promise the student that you will pay it back. Continue to ask students until a student turns you down. Then ask that student why he or she turned you down.

FACILITATE discussion.

ASK … Students to answer the question: “What are some things you think a manager might look at to approve you for a loan?” in their student guides, page 35.

Will You Lend Me Money?

Student Guide, page 36

PRESENT the following instructions to the class:

- Assume that you have just received a check for $1,000.
- Go through the following two scenarios and determine whether you would lend money to each person.
- Write down in your workbook how you would determine whether to lend the person money, and/or why you would not lend money to that person.

DISCUSS their answers as a class after they have completed the assignment.

Scenario 1 Your neighbor Tom was in an accident and his insurance doesn't cover the damage. He needs to repair his car quickly so he can drive to and from work. He needs to borrow $900 for the repairs.

COLLATERAL........ Tom has a minimal $200 to contribute toward the repairs.
CREDIT................He has made a few credit mistakes and had a bankruptcy ten years ago. His credit score is 618.
INCOME..............Tom makes $3,000 per month.
DEBT...................His total debt is $8,000 on credit cards. His total monthly payments (between debt, rent, insurance, phone, Internet, and other utilities) come to $2,750.
ASSETS ....$200 in a savings account.
OVERALL .... Tom currently works as a warehouse manager but has a spotty job history and has jumped fields several times: insurance underwriter, salesperson, and bank teller.

Would you let Tom borrow money? Why or why not?

Scenario 2 Samantha needs emergency surgery but her health insurance has a high deductible. She needs to borrow $900 to cover her out-of-pocket expenses.

COLLATERAL .... Samantha has no collateral.
CREDIT .... She has good credit but a fairly short history. She has a few credit cards that she opened within the last two years, and she has always paid them back in full and on time.
INCOME .... Samantha makes $2,200 per month.
DEBT .... Samantha owes a $5,000 balance on an auto loan; her $300 monthly payments are current. Her other expenses (rent, insurance, cell phone, Internet, and other utilities) total $1,250 per month.

ASSETS .... She has $7,000 in her 401K account. However, due to account restrictions, she cannot remove that money without paying 40% in penalties and taxes.

OVERALL .... Samantha has worked for a marketing company for the last five years, and also is taking night classes at the local community college.

Would you let Samantha borrow money? Why or why not?

DISCUSS many various scenarios to see what may change students' minds. For instance,

- if Tom gave you a $500 watch and promised to let you keep it for lending the $900, would you accept it?
- If Samantha currently had $10,000 in credit card debt, would that change your mind?

ASK the students under what terms they would let each person borrow money. Compare that to how lenders approve people with different interest rates and closing costs. The riskier the loan, the more money the lender wants to earn.

Collateral?

WRITE the word "COLLATERAL" on the board.

ASK students what they think the term means.

DEFINE collateral.

- **COLLATERAL**: Lenders estimate the value of something you offer them to reduce their risk.

PROVIDE basic examples of a **LOW-RISK** loan and a **HIGH-RISK** loan.

- **LOW-RISK** —Your friend borrows $1,000 but gives you his used pickup truck (valued at $1,200) to hold until he repays you. If he doesn't repay you, you can sell the truck and get your $1,000 back, plus $200.
- **HIGH-RISK** —Your friend borrows $1,000 and gives you a truck valued at $800. Even if you sold the truck at full value, you would still lose $200.

SAY ... Lenders look very closely at collateral when evaluating your loan application. For example, if you get a loan to purchase a car, your collateral would be the car. If you don't pay back the loan, the lender will take the car (repossession).

EXPLAIN that collateral is determined by calculating the difference between the car's value and how much a person pays down.

- If someone purchases a $20,000 car with a $10,000 down payment, the lender has $10,000 in collateral — a safer loan.
- If no down payment is made, that poses higher risk for the lender — with increased risk, comes higher rates and it becomes harder to qualify.

How Lenders Qualify you for a loan

Student Guide, page 37

ASK: Why is credit important to lenders in a loan qualification process?

EXPLAIN how lenders look at credit. Lenders look at your past history to determine how well you have paid other people back.

ASK: How do lenders view income? What factors do you think lenders look at regarding your income?

EXPLAIN that income is a way for lenders to evaluate how much money you regularly receive, to make sure you have the ability to repay money you borrow.

ASK a student: Describe what debt means to you.

ASK: What are two reasons why lenders look at debt during the loan approval process?
How do lenders view income?

EXPLAIN that lenders prefer low debt to be sure you can continue making payments.

ASK: What are assets?

- Lenders look at the amount of money you have saved.
- In case you lose your job, the lender knows you have money set aside that can be used to repay what you borrowed.

EXPLAIN that lenders look at the overall picture to determine whether you qualify. They want to be sure they have good loan risk and you are not a high-risk applicant.

High Risk Applicants

EXPLAIN that a high-risk applicant is an applicant with many factors indicating that he or she will have difficulty paying back the loan. Examples of high-risk factors include:

- Poor credit;
- Low income;
- Few or no assets;
- A lot of debt.

- If you've relocated multiple times and had many jobs in different fields, those can be indicators of instability.
- Instability is a high lending risk. If you're a high-risk applicant, it will be harder to qualify for the loan.

Buying Real Estate

Student Guide, page 37

ASK ...What are three things that you know about purchasing a home?

INSTRUCT participants to write down the answer in their student guides, page 37. Once they've completed the assignment, discuss their answers as a class.

Choosing the Right Real Estate Loan

SAY ... The first step in choosing the right real estate loan is to clearly define your goals for the property.

EXPLAIN that having set goals for the property will help you achieve the proper balance of terms, cost, interest rate, and other features

SAY ... There are some questions you should answer prior to searching for a loan that's right for you.

- How long do you plan to keep the property?
- What are your real estate market predictions over that time?
- What payments can you afford?
- What is your risk tolerance?
- If it's a rental property, what kind of cash flow are you hoping to achieve?

- Are you trying to pay down the principal balance?
- How does this property fit into your overall financial plans?

SAY ... You will not be able to predict everything, but a well-thought-out action plan will be your ally in finding the best possible loan for you.

Types of Home Loans

REMIND students that their goals may change over the years, so they should remember to allow flexibility in the loans they choose.

EXPLAIN that it's important to know the types of home loans available.

SAY ... Today's lending market offers loans to fit your unique needs. Which one is right for you?

- Fixed-rate loans – payments stay the same for the length of the loan
- Adjustable-rate loans – payments change on a scheduled basis

EXPLAIN the process of qualifying for a home loan. Lenders look at four areas when determining if you're eligible to qualify for a home loan.

Qualifying for a Home Loan

SAY ... Here's how you're qualified for a home loan.

REVIEW home loan terminology:

- **CREDIT.** As discussed throughout this course, credit is the first thing a potential lender looks at when qualifying you for any type of loan. Maintain an excellent credit status and qualifying for a home loan will be much easier.
- **EQUITY.** On a home purchase, equity is equal to the amount of money you put down on a property. If you put 10% down, you have 10% equity. The more you put down, the easier it is to qualify for a loan.

- **ASSETS.** Lenders want to see, on average, at least three months of mortgage payments in an account. I suggest you have at least six months of payments set aside, in addition to the down payment, before you invest in real estate.
- **DEBT-TO-INCOME RATIO.** This is another aspect the lender will assess to determine the risk of lending to you. Debt-to-income ratio shows lenders that you have the ability to afford monthly loan payments. If you make $4,000 per month and your mortgage payment is $3,800, that doesn't look good for you. The lender will be thinking, "How can this person afford to pay me?" This is another reason why you make a sensible budget plan – to avoid getting into indebted situations that make it harder to purchase assets.

EXPLAIN that having a low debt-to-income ratio decreases your personal risk when investing in a property.

INSTRUCT participants to complete the **Preparing to Buy a Home** activity (*Student Guide,* page 37).

Players in the Loan Game

SAY ... During the process of applying for a home loan, you'll encounter several different players. It's helpful to understand each player's function to make the process run smoothly.

REVIEW functions in loan approval process:

- **SALESPERSON**. This is typically your first point of contact in a transaction – car salesperson, loan officer, etc. These people are on your side because they get paid when your loan funds.
- **SALES MANAGER**. The sales manager has more interest than the salesperson in weeding out bad loans; however, their compensation and job security is often tied to funding numbers.
- **PROCESSORS**. This person gathers your pertinent information and puts files together. This is the person with whom borrowers usually have the most interaction.
- **UNDERWRITER**. These are the salespeople's worst nightmare—their job is to deny bad loans. Typically if a loan is approved by the underwriter, the loan will fund.
- **FUNDER**. This person is the last set of eyeballs on the loan documents. Funders serve as backup to the underwriter. After the funder approves the loan, they push a button and your loan process is complete.
- **AUDITOR**. Auditors review select files after funding and check for fraud and internal mistakes.

SAY … You should carefully consider your comfort level with the payments prior to making any investment decision.

- Have students complete the "Preparing to Buy a Home" activity in the *Student Guide,* either individually or with a partner.
- Go over their worksheets as a class.
- Discuss why students answered the way they did and give advice to help them start preparing today for purchasing a home.

Loan Qualification Review & Unit Questions

Student Guide, page 38-39

RECAP the loan qualification process.

REVIEW

- You know that the main areas lenders review when making a decision whether to lend you money are equity, credit, income, debt, and assets.
- You have a solid understanding of the loan process and the players involved.
- You know how to prepare to qualify for a loan.
- Start planning to qualify for a loan at least a year in advance. For major purchases like real estate this planning may need to begin many years prior so you have time to build up your savings.
- Your plan to qualify for a loan may include: your credit plan, savings plan, skill plan, income plan, and debt payoff plan. All these pieces will provide you clear directions for taking action.
- Take your plan and add each action step to your calendar.

ASK students to complete the **Qualifying for Loans Unit Questions** on in their student guides, page 38-39.

Student Guide Questions: QUALIFYING FOR LOANS

1. How does understanding the loan qualification process save you money?

   ____

   ____

2. Which of the following loans is a ***good debt***?
   a. A loan from a family member.
   b. A loan for something that's likely to go up (appreciate) in value.
   c. A loan for something that's likely to go down (depreciate) in value.

3. Which of the following loans is a ***bad debt***?
   a. A loan from a family member.
   b. A loan for something that's likely to go up (appreciate) in value.
   c. A loan for something that's likely to go down (depreciate) in value.

4. The best first step to take when preparing to buy real estate is:
   a. Apply for a home loan.
   b. Shop around for a good real estate agent.
   c. Plug some figures into your personal budget to determine how much house payment you can afford.

5. Name the five financial areas a loan manager will examine to decide whether you qualify for a home loan:
   a. ____________________ b. ____________________ c. ____________________
   d. ____________________ e. ____________________

6. Your ***debt-to-income ratio*** is one way to measure your:
   a. Equity. b. Payment. **c. Risk.**

7. What is the minimum most lenders want you to have in ***liquid assets*** before they approve your home loan?
   a. Three months of payments. **b. Eight months of payments.** c. $5,000.

8. Name two ways choosing a good car loan can save you money.

   a. ____

   b. ____

9. What is the definition of an ***upside-down*** car loan?
   a. A loan that finances only the car's chassis, not the engine.
   b. A loan where the interest rate is higher than the payment.
   c. A loan where you owe more than the value of the car.

(Continued on Next Page)

Student Guide Questions: QUALIFYING FOR LOANS (Continued)

10. Why is an upside-down loan the worst kind of car loan?
    a. You end up paying more for the car.
    b. You'll have to pay the amount you're short when you go to buy a new car.
    c. Your car will have less trade value when you go to buy a new car.
    d. All of the above.

11. What are the three financial areas a car lender looks at to determine whether you qualify for a loan?

    a. ____

    b. ____

    c. ____

12. When buying your first car, the best loan term to choose would be:
    a. Three years.
    b. Five years.
    c. Seven years.

13. Having a car repossessed is no big deal; you can just get another car loan right away to buy a new car. ☐ True ☐ False

14. If you get an auto loan to finance a car purchase, how much insurance coverage do you need?
    a.. Liability coverage only.
    b. Liability plus collision coverage.
    c. Full coverage.

INSURANCE & RISK MANAGEMENT

(Student Guide page 40)

Section Goals

- ❖ Participants will understand what insurance is and why they need to obtain certain types of insurance.
- ❖ Students will develop an understanding of various types of insurance and determine what type of insurance they need to obtain.
- ❖ Students will understand the details of insurance policies and premiums to make an informed decision about various policies.
- ❖ Participants will build an understanding about insurance claims and how they relate to insurance.
- ❖ Students will learn how to reduce their overall financial risk.
- ❖ Participants will learn how to identify what type of risk they are taking: avoidance, reduction, sharing, or retention.
- ❖ Students will develop an understanding of estate planning and how it can protect them.

Slide 31: Insurance

Student Guide, page 40

SAY … Our next topic is insurance.

REFER students to the Warm-Up exercise in the *Student Guide*, page 40 and have them answer the following questions.

- What is insurance?
- Why is it important to have insurance?
- What do you need insurance for?

What is Insurance?

ASK … What do you think insurance is?

Keep the discussion general, not specific to a certain type of policy.

ASK … What do you think is the main function of insurance?

DISCUSS the students' responses. Explain that:

- Insurance is an agreement that states something is protected if it is damaged, hurt, or stolen.
- Essentially, when you purchase insurance on something you protect your investment. If anything happens to something that's covered by the policy, you can receive funds from the insurance company to have it replaced or fixed, or receive a cash settlement.

ASK … Why do people purchase insurance to insure their cars, homes, items, or themselves (medical and dental)? Why is it important?

Slide 32: Insurance Benefits

SAY … People purchase insurance to have *protection* against risks and the what if's in life.

REVIEW insurance benefits and protection:

- You never know when you may get some type of illness, break your arm, or need medication. So it's important to have medical insurance to cover these costs.

- For the same reason, you need to insure your car to protect against any damages that may happen to your car. For example, if you get in an accident, your insurance will help pay for the repair or replacement of the vehicle.
- Insurance can provide for your family if you pass away.
- Insurance can even protect your credit—if you're sued for damages, the judgment will negatively affect your credit rating.
- It's important to insure your belongings if you rent an apartment or house. Renter's insurance protects your items and belongings in your place if anything happens to the apartment or house. For example, renter's insurance protects your belongings from theft or damage from the building (leaky pipes, roofs, etc.). If something happens to your stuff, the insurance company will replace the items or reimburse you for the purchase price.
- There are long-term care and disability insurance options too.
- There are other insurance products that help you protect against a variety of other risks.

The Insurance Game

Student Guide, page 40-41

TELL STUDENTS that you are going to play an insurance game. Divide students into groups of 6-8 and provide each group with a set of dice.

EXPLAIN how the game works.

- Each student has 20 raffle tickets for some type of prize (healthy snacks, day off from homework).
- Students can choose to give you 3 tickets to cover car, medical, and renter's insurance … or they can keep all 20 tickets and risk the consequences.
- If they decide not to give you tickets for insurance, they will have to pay out tickets each time something happens, according to the guidelines below.
- Students in each group will alternate turns rolling the dice.
- The student with the most tickets at the end of the game wins.

At the end of the game, talk about how the game illustrates why people need insurance to cover the what if's of life.

Dice Roll	Circumstances	Consequence With insurance	Consequence Without insurance
Doubles	Nothing happens. You are extra safe.	Get 1 extra ticket	Get 1 extra ticket
3	**You fall and hurt your leg.**	**Pay 1 ticket**	**Pay 4 tickets**
4	**You get into a car accident.**	**Pay 1 ticket**	**Pay 6 tickets**
5	**Your apartment is broken into and you need to replace your electronics.**	**Pay 1 ticket**	**Pay 5 tickets**
6	**You get the flu and need prescription antibiotics and blood tests.**	**Pay 1 ticket**	**Pay 4 tickets**
7	**Someone hits your car in the parking lot.**	**Pay 1 ticket**	**Pay 3 tickets**
8	**A pipe burst in your apartment and ruins your couch and TV.**	**Pay 1 ticket**	**Pay 6 tickets**
9	**A rock hits your car and breaks the windshield.**	**Pay 1 ticket**	**Pay5 tickets**
10	**You trip and fall and sprain your ankle. You need crutches, an x-ray and pain medication.**	**Pay 1 ticket**	**Pay8 tickets**
11	**You want to get a flu shot for protection.**	**Pay 1 ticket**	**Pay3 tickets**
12	**The roof collapses and damages all your belongings.**	**Pay 1 ticket**	**Pay10 tickets**

▶

REFER participants to the *Student Guide*, page 42: **What Insurance Do I Need?**

WRITE the following questions on the board and have students write their answers in their workbooks.

- What type of bills is the leading cause of bankruptcy? How can this bill be avoided?
  ANSWER: Medical bills.

DISCUSS their answers as a class.

EXPLAIN how medical bills can be avoided and how medical insurance plays a role, within this question.

Types of Insurance

ASK …What kind of insurance do you think it's important to have?

DISCUSS their answers as a class.

EXPLAIN that the following types of insurance are important.

- **HEALTH INSURANCE**– Medical, dental, and vision insurance.
  - Health insurance is a must.
  - If you don't get sick often, there are cheaper forms of insurance that will protect you in case of a major medical emergency.
- **AUTOMOBILE INSURANCE** insures you and your vehicle.
  - Automobile insurance is a must.
  - Talk to your insurance agent to make sure you have enough coverage.
- **RENTER'S INSURANCE** covers your personal belongings in the place that you rent.
  - Renter's insurance is important for people who have nicer things.
  - If you have a 20-year-old TV and a couch you found in the alley, renter's insurance may not be so important.
  - **NOTE**: Explain that the class will extensively cover renter's insurance, health insurance, and automobile insurance.
- **DISABILITY INSURANCE** can offset your earnings in case of an injury or illness.
- **LONG-TERM CARE INSURANCE** helps cover the cost of daily living expenses where you live.
- **PROPERTY INSURANCE** covers any properties that you own.
- **UMBRELLA POLICIES** provide additional coverage on the insurance policies you have and additional protection to cover accidents and other issues that medical, property, and auto insurance policies don't cover.
- **LIFE INSURANCE** provides your loved ones coverage in case of your death.
- **WILL or TRUST.** Although not insurance *per se*, these documents will help your family avoid probate.
  - Explain that you don't need a will or trust unless you own things of value, but it's important to have them once you acquire assets.

SAY ... Insurance protects your financial future by reducing your risk. Without insurance, if you have an accident or health problems, you may have to pay large bills, which may have a negative effect on your credit. In today's age, it's incredibly important to have automobile and health insurance.

- Lack of health insurance is one of the biggest causes of bankruptcy.
- With all the expensive cars on the road today, even a little fender bender without insurance can mean you will make payments to the courts for many years to come.

Auto Insurance

Student Guide, page 42

SAY ... It's vital to purchase and maintain car insurance. Without insurance, there's a huge amount of risk — to yourself, to others, and to your future finances.

- If you get in an accident without car insurance and you cause $80,000 in damages and medical costs, the courts will likely determine that you are responsible to pay the money.
- The court can garnish your wages (automatically take your pay) to repay the money owed, thus severely stifling your income for many years to come.
- Shopping for insurance can take some time, but with the Internet you can obtain quotes easily and quickly. However, make sure to read the policies and special provisions carefully to make sure you are evaluating comparable insurances.
- Bottom line - Younger people pay higher insurance costs than older Americans.
- It's a fact: teenage drivers cause a lot of accidents.
- In fact, the number one killer of teens does not have a trigger or a plunger – it has a steering wheel.
- To help lower your insurance costs, try the following:
- **Good driver discounts** - Insurance premiums will increase if you get speeding tickets. Get too many tickets, and you may not be able to find insurance at all.
- **Choice of car** – A more expensive car likely would have higher insurance rates. Choosing a sports car or 4-wheel drive could also increase your risk factors which may increase your insurance premium.

Slide 33: Life Insurance

Student Guide, page 43

SAY … The purpose of life insurance is to replace income for someone who is dependent upon the insured's income — nothing more, nothing less.

EXPLAIN that the type of life insurance you need depends on the length of time for which you need it. Most people have a set period of time for which they need life insurance — perhaps 30 years to protect a mortgage, 18 years to provide for a child, etc. As their assets grow (retirement accounts, etc.), their need for life insurance will decline. There are two types of life insurance.

Finding the Best Life Insurance

SAY… It is important to understand the difference between types of insurance, in order to determine whether permanent or term life insurance is right for you.

TERM INSURANCE

- pays a death benefit when someone dies;
- provides coverage for a limited time period; and
- does not accrue cash value.

PERMANENT LIFE INSURANCE

- pays a death benefit;
- can be continued for a longer period of time/full lifetime, planned level premium;
- may accumulate cash value; and
- is sold under many different names: whole life, universal life, variable life, indexed life.

Slide 34: Term Life Insurance

SAY…*Term Insurance:* Pays a death benefit when someone dies. Provides coverage for a limited time period and does not accrue cash value.

- Four Kinds of Term Insurance
    - Annual Renewable Term
    - Level Premium Term
    - Decreasing Term
    - Return of Premium Term

Pros and Cons of Term Life Insurance

SAY… There are many Pros and Cons of Term Life Insurance to be mindful of when making your decision

<table>
<tr><th colspan="2">TERM LIFE INSURANCE PROS AND CONS</th></tr>
<tr><th>Pros</th><th>Cons</th></tr>
<tr><td>Premiums are lower</td><td>The older you get, the higher your premiums go.</td></tr>
<tr><td>It insures specific needs that will disappear over time, such as mortgages or loans.</td><td rowspan="2">Coverage ceases when the term ends.</td></tr>
<tr><td>Many term insurance policies can be exchanged for or converted to a permanent policy during the term period.</td></tr>
</table>

Permanent Life Insurance

SAY… Permanent Life Insurance: Pays a death benefit, can be continued for a longer period of time/full lifetime, planned level premium, and may accumulate cash value.

- Sold under many different names:
  - Whole Life, Universal Life, Variable Life, Indexed Life

Pros and Cons of Term Life Insurance

SAY… There are also many pros and cons to keep in mind while looking at Permanent Life Insurance policies

PERMANENT LIFE INSURANCE PROS AND CONS	
Pros	**Cons**
As long as the necessary premiums are paid, protection can be guaranteed for life.	Higher premium payments.
Premium payments can be fixed or flexible to meet personal financial needs.	It may be more costly than term insurance if you don't keep it long enough.
The policy can accumulate a cash value that can typically be borrowed against.	Policy loans must be paid back with interest or else the beneficiary will receive a reduced death benefit.
The policy's cash value may be surrendered partially or wholly for the cash value, or it may be converted to an annuity.	The cash value accumulates on a tax-deferred basis in most cases.
A "rider" (additional feature) can be added to a policy.	
It pre-funds rising insurance costs.	

35: How much Life Insurance Do You Need?

Student Guide, page 44-45

ASK …How much life insurance do you need?

EXPLAIN that the most common method for calculating life insurance needs if the simple rule of thumb, using a multiple of your income (anywhere from 6 to 15 times).While rule of thumb may be helpful, it does not take each individual's situation into consideration.

- If you know the amount of income that needs to be replaced (assuming that this is a permanent income level), you can perform a reverse calculation by dividing the income stream needed by a conservative, reasonable rate of return if you were to invest the entire proceeds and leave the principal intact (such as a 5% annual rate of return).
- For example, if your need is for an annual before-tax income stream of $50,000, you would divide by 5% ($50,000/.05), resulting in a death benefit of $1,000,000.

PROVIDE the following tips.

- A spouse/domestic partner who does not have earnings (or lower earnings) still contributes economic value and may have a life insurance need.
- Also, do not forget to name a contingent beneficiary. If you fail to name a contingent beneficiary, the life insurance proceeds become part of the insured's estate.

Health Evaluation

SAY … Here are some things to consider when buying life insurance.

SAY … These are the main factors that will influence your premium classification:

- Height and weight (BMI)
- Tobacco usage (what type and frequency)
- Family health history
- Driving history
- Blood pressure
- Cholesterol level and cholesterol/HDL ratio
- Alcohol/substance abuse
- Hazardous activities and occupations

SAY … After that, the companies will look closely at any and all medical conditions that would affect your life expectancy, such as heart disease and cancer. Criteria vary from company to company.

DIRECT participants to use the worksheet to determine how much life insurance they need today (*Student Guide*, page 44-45).

SAY ... Keep in mind that you should only buy as much life insurance as you currently need, rather than what you might need in the future. Also, as you accumulate other assets, your need to life insurance will usually decline.

Slide 36: Disability Insurance

Student Guide, page 46

SAY ... What's the bottom line on disability insurance? If you are dependent upon your earned income, you need disability income insurance.

REVIEW the information on the slide.

- The odds of a disability are high. At age 40, the chances of a disability lasting 90 days or more is 21%.
- The majority of contracts are unaffected by Social Security, which requires 12 months of total disability to collect benefits, and is very stringent in qualification.
- Coverage can also be used to fund buy-sell agreements, key-person indemnification, and business overhead expenses.
- The older you get, the higher your chances of being disabled for longer periods of time.
- The table below shows your chances of becoming disabled for more than 90 days before the age of 65.

AGE	PERCENTAGE DISABLED	ODDS OF BECOMING DISABLED
25	52%	1 out of 2
30	51%	1 out of 2
35	48%	4 out of 9
40	45%	4 out of 9
45	40%	2 out of 5
50	34%	1 out of 3
55	16%	1 out of 6

SSDI

SAY … The Social Security Administration (SSA) provides long-term disability benefits based on your salary and the number of years you have worked and contributed to the Social Security system.

EXPLAIN that **Social Security Disability Income Insurance (SSDI)** only replaces a limited portion of your salary, and the qualifications to receive benefits are very strict.

WRITE on the board:
To learn more about SSDI and to read Social Security's fact sheets and actuarial publications, go to www.ssa.gov/disability.

Employer/ Group Disability

SAY … Your employer will provide a basic coverage amount for long-term disability. You may be automatically enrolled, or you will be given the option to join at your employer's open enrollment period.

EXPLAIN that sometimes employers offer the option of paying on a pre-tax or post-tax basis.

- If you pay on a pre-tax basis, your benefits will be subject to income tax.
- If you pay on a post-tax basis, your benefits will not be subject to income tax.
- Some employers also allow you to purchase additional coverage.

SAY … Keep in mind that this coverage is typically not portable and usually you can only get it without a medical exam at the time when you're first offered coverage.

- Even if you have group long-term disability, your coverage is most likely less than you think it is. A supplemental policy can provide you with a significant amount of additional coverage.
- The majority of group plans pay a pre-tax benefit, which means that any benefits are subject to income tax when you collect them.
- There is usually a maximum monthly benefit.
- Bonuses and commissions typically are not covered.

SAY … If you have group disability coverage, here's how to calculate your current coverage and how much additional individual disability insurance coverage may be available to you.

- (Current Annual Gross Income) times (% covered).
  50-60 is the norm. Most plans have a maximum benefit cap, so use that if applicable.
- Then subtract your gross income tax rate (35-40%) for your current after-tax long-term disability benefit.
- An individual disability program will usually replace about 70%+ of your after-tax income.

SAY … Every disability insurance policy has certain core parameters that differ from company to company.

- **BENEFIT AMOUNT**. This is the maximum monthly benefit for your policy. The worksheet and the life insurance section we covered previously will help you determine your need.
- **OCCUPATION (DISABILITY) DEFINITION.** The definition of disability is the most important part of the policy because everything else stems from it.

  - Some policies pay benefits only if you are unable to perform the duties of any occupation for which you are reasonably qualified by training, experience, and education.
  - However, depending on the definition of disability being used, the own occupation rider is usually not necessary and can significantly add to your premium.

- **ELIMINATION PERIOD.** The number of days you must pay for covered services before the insurance company will make payments (also known as a waiting period; comparable to a deductible).
- **BENEFIT PERIOD:** The length of time for which your benefit will be paid.

  - This is usually a set number of years (example: 5 years) or to age X (such as to age 65).
  - Most policies allow a policy holder to continue the coverage past age 65 with a decreased benefit period of 1 or 2 years.

Insurance Policy Riders

SAY … Most insurance policies have riders, or extra options, that can augment your policy.

- Non-cancelable (guarantees against future premium increases)
- Residual or partial disability rider
- Extended/transition benefit
- Cost income provision, cost of living adjustment
- Future increase option
- Catastrophic disability benefit rider
- Supplemental social insurance rider.

EXPLAIN that most policies are guaranteed renewable. **THIS IS VERY IMPORTANT.**

SAY … "***Guaranteed Renewable***" guarantees that the insurer cannot terminate the policy as long as the premiums are paid, and the insured doesn't have to reapply at any point to continue coverage. Premiums cannot be raised based on an individual's circumstances. However, they can be increased for an entire class of policyholders. No other aspect of the policy can be changed.

Slide 37: How to Monitor Your Disability Policy

SAY … Life changes. So it's important to monitor your policy to make sure it still fits your current situation, especially if you've had a change in income or employment. Here are a few things to look out for.

REVIEW the information on the slide.

- **EXCLUSIONS**. Sometimes a disability policy is issued with an exclusion for a certain illness or injury. The exclusion can be removed after a certain period. For example, if you have knee surgery, the insurance company may exclude any disabilities related to the knee for a certain period of time. However, the insurance companies will not usually remove this automatically. You will need to request to have this exclusion removed.
- **CHANGE IN EMPLOYER.** Have you gained or lost your group long-term disability coverage, or is it the same?
- **CHANGE IN INCOME LEVEL.** Has your income increased or decreased? Your disability benefit should be adjusted accordingly either by increasing coverage or decreasing coverage.

- **FUTURE PURCHASE (OR INCREASE) OPTIONS.** Do you have these? When are they available and are you eligible? Know the terms and make sure to take advantage if you are eligible. The insurance companies typically will notify you, but there is no guarantee that they will.

How to Monitor Life Insurance

SAY … Life insurance doesn't end at purchase. Policies are living things, and there are many components that can affect their performance. This is particularly true with **permanent** policies that build cash value over time.

SAY … For example, if you've taken out **policy loans** or have a **Universal/Variable/Equity Indexed, etc.** policy — which require vigilant attention to **premium** payments and the investment portfolio — you'll want to be aware of how much money it will take to keep those policies **in force**, and whether you can afford to keep them in force.

EXPLAIN that if your **TERM INSURANCE** is more than a couple of years old and your health is good, then you should consider looking at current available options, as term rates may have decreased.

- Know when your guaranteed premium ends and also know the last date to convert your policy to permanent insurance.
- Check the marketplace — use an advisor or an online website with access to multiple companies.

SAY … To begin the monitoring process on your **PERMANENT INSURANCE**, get in touch with your life insurance carrier and request a current "in-force illustration."

- You can download a sample in-force illustration request letter at www.tonysteuer.com. An in-force illustration projects future performance of a life insurance policy using current values, rather than the projections at the time of the policy issue.
- Permanent life insurance policies are made up of various components that impact policy performance, including earnings (interest rates/dividend rates, etc), mortality costs, cost of insurance charges, and expense charge.
- In-force illustrations are critical and the ONLY WAY to find out if your life insurance policy is performing as expected.
- An in-force illustration will help you answer the following questions:

Is the policy fully funded? In other words, will it continue to maturity (maximum age) with current premiums, based on current assumptions?

If the policy is not fully funded, what is the premium required to fund the policy to maturity, based on current assumptions?

Is the policy overfunded? Have you paid in more than required?

Can you terminate premiums and still have the policy continue to maturity, based on current assumptions?

SAY ... If your policy is not performing as expected, it can be due to one or more of the following:

- Lower than expected earnings (interest rate, dividends, etc.);
- Higher than expected mortality costs or cost of insurance;
- Higher than projected expense charges.

By understanding, maintaining, and monitoring your policy, you will avoid any unpleasant surprises in the future and ensure that the right policy will be there for you when you need it.

Slide 38: Health Insurance

Student Guide, Page 46

EXPLAIN that paying health insurance premiums can seem like a waste of money, especially to healthy people. However, having health insurance will protect you from sky-high medical bills if you get injured or experience a sudden illness.

- It is tempting to think, “I never get sick,” and not to take health insurance if you have to pay for it.
- Don’t make this mistake. A simple fall and broken arm could cost you thousands, even tens of thousands of dollars to fix.
- Any catastrophic accident or illness could lead to bankruptcy if one is does not have insurance.
- It happens to a lot of people each year. Don’t be one of the 47 million uninsured Americans who play Russian roulette with their health and finances.

EXPLAIN the information about health insurance.

- Health insurance is a form of risk management that individuals use to protect themselves against an unpredictable health loss.
- An insurance policy is a contract between an individual and an insurance company that transfers that loss from the individual to the insurance company for a fee.
- Many employers provide health insurance and you only have to pay a certain amount of the insurance premiums out of your paycheck.

- ▶ People are now legally required to purchase health insurance due to the Affordable Care Act.

SAY… Health insurance will give you access to medical care and preventive care. When purchasing health insurance, your choices typically will fall into one of three categories:

- ▶ Traditional fee-for-service health insurance plans are usually the most expensive choice, but they offer the most flexibility in choosing health care providers.
- ▶ Health maintenance organizations (HMOs) offer lower co-payments and cover the costs of more preventive care, but your choice of health care providers is limited.
- ▶ The National Committee for Quality Assurance evaluates and accredits HMOs. Find out whether one is accredited in your state by calling 1-888-275-7585 or get this information and report cards on HMOs by visiting www.ncqa.org.

EXPLAIN that Preferred Provider Organizations (PPOs) offer lower co-payments like HMOs but give you more flexibility in selecting a provider. A PPO gives you a list of providers you can choose from.

WARNING: —If you go outside the HMO or PPO network of providers, you may have to pay a portion or all of the cost.

When choosing among different health care plans, you'll need to read the fine print and ask lots of questions, such as:

- ◆ Do I have the right to go to any doctor, hospital, clinic, or pharmacy I choose?
- ◆ Are specialists like eye doctors and dentists covered?
- ◆ Does the plan cover special conditions or treatments such as pregnancy, psychiatric care, and physical therapy?
- ◆ Does the plan cover home care or nursing home care?
- ◆ Will the plan cover all medications my physician may prescribe?
- ◆ What are the deductibles? Are there any co-payments?
- ◆ What is the most I will have to pay out of my own pocket to cover expenses?
- ◆ If there is a dispute about a bill or service, how is it handled? In some plans, you may be required to have a third party settle the claim.

Group Policies

SAY…Many consumers have health care coverage from their employers. Others have medical care paid through a government program such as Medicare, Medicaid, or the Veterans Health Administration.

- ▶ If you have lost your group coverage from an employer as the result of unemployment, death, divorce, or loss of "dependent child" status, you may be able to continue your coverage temporarily under the Consolidated Omnibus Budget Reconciliation Act (COBRA). You pay for this coverage. When one of these events occurs, you must be given at least 60 days to decide whether you wish to purchase the coverage.

Medicare

SAY... There are also **MEDICARE** and **MEDICAID** health insurance programs for people who are seniors, disabled, or have low incomes.

- Medicaid provides health insurance for people with low incomes, children, and pregnant women. Eligibility is determined by your state.
- Medicare provides health insurance for people who are 65 years or older, some younger people with disabilities, and those with kidney failure.
- Contact the Centers for Medicare & Medicaid Services for more information on benefits.
- Most states also offer free or low-cost coverage for children who do not have health insurance. Visit www.insurekidsnow.gov or call 1-877-KIDS-NOW (543-7669) for more information.

Affordable Care Act

SAY... The 2010 Affordable Care Act (ACA) puts in place comprehensive health insurance reforms that will roll out over several years. Most provisions will take effect by 2014; a timeline is available at healthcare.gov/law/timeline.

EXPLAIN that the law is intended to lower health care costs, provide more health care choices, and enhance the quality of health care for all Americans. Major provisions affecting consumers include:

- Coverage for seniors who hit the Medicare Prescription Drug "donut hole," including a rebate for those who reach the gap in drug coverage.
- Expanded coverage for young adults, allowing them to stay on their parents' plan until they are 26 years old.
- Providing access to insurance for uninsured Americans with pre-existing conditions.
- Expanded preventive care (for example, wellness visits and mammograms) to Medicare and Medicaid participants.
- Medical coverage to children not eligible for care under Medicaid.

- For more information about the law as well as basic information about health insurance, go to www.healthcare.gov.

Slide 39: Long-Term Care Insurance

Student Guide, Page 47

ASK …What's the bottom line on long-term care insurance? Long-term care insurance coverage pays for expenses that are not covered by health insurance and/or Medicare.

REVIEW the information on the slide about long-term care facts.

- Fifty percent of all Americans age 65 and older will require some type of long term care assistance (California Partnership for Long Term Care Comprehensive Brochure, August 2004).
- Nursing home care is expensive: The 2010 average daily rate in the U.S. for a private room in a nursing home was $206 ($75,190 annually) and a semi-private room is $185 a day (Genworth Financial *2010 Cost of Care Survey*).
- During the last 20 years, nursing home rates increased at an average rate of over 5% per year and are likely to increase at the same rate.
- Thirty-five percent of people who enter a nursing facility stay between one and five years (National Center for Policy Analysis, *"A Long-Term Solution to a Medical Problem,"* 11/17/1995: 2004 National Nursing Home Survey)
- Twenty-one percent of people in nursing facilities remain for more than five years (California Partnership for Long Term Care, 2005).
- The average length of time spent in a nursing home is 2.4 years (MetLife Market Survey of Nursing Home and Assisted Living Cost, 10/2007)

ASK …How much long-term care insurance do you need?

EXPLAIN that the amount of long-term care insurance you will need depends on whether or not you can go without insurance (self-insure) as well as how much the daily cost of care will be where you live. Take a look at what you may need, what you have in other assets, and balance those with a premium that you can afford (even if increased by 25%).

ASK …What about Medicare?

EXPLAIN that Medicare only pays for skilled care in a nursing facility for a short period – no longer than 100 days – and only if the patient meets all of Medicare's requirements for receiving daily skilled care. Medicare does not cover long-term custodial care or in-home care.

- Determine if the policy pays on an indemnity basis (a specified amount to the policyholder up to a daily maximum or monthly maximum regardless of the actual cost of care).
- Example: If $150 in daily medical charges is incurred and the policy has a $200 daily payout, the insured can use the extra $50 for any qualifying expenses.

Slide 40: Comparing Policies

SAY … Every long-term care insurance policy has certain core definitions and parameters that can differ from company to company.

EXPLAIN that long-term care policies allow you to customize the various components to fit your needs and budget. It's important to understand each of these components and if it fits your financial plan. Components vary in definition from company to company. When comparison shopping, the components should be the same so you get as close as possible to an "apples-to-apples" comparison.

- **MAXIMUM DAILY (OR MONTHLY) BENEFIT.** The maximum specified dollar amount that will be paid on a daily basis for services covered under a policy. Research facilities and services in the area you plan to live during retirement to find out the current daily cost of care.
- **ELIMINATION PERIOD.** The number of days that you must pay for covered services before the insurance company will make payments (also known as a waiting period; comparable to a deductible). Policies have different definitions for elimination period.
- **BENEFIT PERIOD.** The number of days for which benefits will be paid. Most current policies allow you to carry over unused benefits. For example, if you are using half of your daily maximum benefit, your benefit period would be twice as long.
- **INFLATION RIDER.** An inflation rider increases your benefit to keep pace with inflationary increases in the cost of long-term care. Typically options are none, 5% simple and 5% compound.
- **OTHER RIDERS.** Other riders include assisted living benefits, survivorship benefits, restoration of benefits and non-forfeiture benefits.
- **DISCOUNTS.** Always ask what discounts are available. Common discounts are for Preferred Health & Marital/Couples Discount. Companies will usually offer a discount to married couples, couples that share a child, and domestic partners.

Monitoring Long-Term Care Insurance

SAY ... Find out the types of care that are covered under your policy. Many older long-term care policies did not pay for any type of home care or relatively newer types of care like adult day care.

REVIEW the options to consider if you receive a premium increase.

- ▶ Do nothing. Keep everything as is and pay the new premium.
- ◆ Can you afford this new premium?
- ◆ Are the benefits that you will receive still worth the premium?
- ▶ Adjust different components of the policy to reduce the premium.
- ◆ Ask yourself if you can make the following changes to the policy and still have the coverage remain worthwhile to you:
- ◆ Reduce the daily benefit amount
- ◆ Increase the waiting period
- ◆ Shorten the benefit period
- ◆ Change your inflation rider – if you have a compound inflation rider, can you change a simple inflation rider? Can you reduce the inflation rider percentage (for example, from 5% to 4%)?
- ◆ Change/remove other riders?
- ▶ If your policy has a contingent, non-forfeiture benefit, consider taking it if you cannot afford the premiums (this would provide a paid-up reduced pool of benefits).
- ▶ Cancel the policy

Slide 41: Renter's Insurance

Student Guide, Page 48

EXPLAIN renter's insurance to the participants.

- ▶ Renter's insurance can protect you in the event of a theft or fire, and is relatively inexpensive.
- ▶ Take an inventory of what you have and what it would cost to replace it.
- ▶ If you just have an old couch and some clothes, you probably don't want to add the expense of this insurance.

- On the other hand, if you have designer clothes, computers, nice furniture, and other items that would cost you a lot to replace, take a look into renter's insurance.

Homeowner's Insurance

SAY ... Homeowner's insurance pays claims for damages to your home, garage, and other outbuildings, as well as for loss of furniture and other personal property due to damage or theft (both at home and away from home). In addition, homeowner's insurance pays for additional living expenses if you rent temporary quarters while your house is being repaired.

REVIEW the information on what homeowner's insurance usually covers.

- Most homeowner's policies will not protect you from a flood, a hurricane, or an earthquake loss. You may be able to purchase coverage for these contingencies by adding an earthquake or flood endorsement to your insurance policy, or through the National Flood Insurance Program (NFIP).
- Homeowner's insurance also includes liability for bodily injury and property damage that you may cause to others through negligence, and for accidents happening in and around your home, as well as away from home, for which you are responsible.
- Homeowner's insurance also pays for any injuries occurring in and around your home to anyone other than you or your family. Medical payments coverage also pays claims for injuries outside your home that you, a family member living with you, or your pet cause.
- Homeowner's policies generally provide limited coverage for money, gold, jewelry, and stamp and coin collections.

SAY ... Be sure to ask about exclusions. Many property policies on the market today exclude — will not pay for — certain types of damage. Ask the insurer, agent or broker exactly what causes of loss and what items are NOT covered. If you want full coverage, make that clear to the insurance company at the time of writing. Ask whether the policy excludes or limits coverage for damage due to water, earthquakes, earth movement, mold, construction defects, or other common perils. Take good notes and store the information in a safe place.

Monitoring Homeowner's Insurance

SAY ... Raising your deductible is the best way to keep your premium affordable without reducing your protection.

REVIEW

- Consider a higher deductible. Increasing your deductible by just a few hundred dollars can make a big difference in your premium.
- Ask your insurance agent about discounts. You may be able to get a lower premium if your home has safety features such as deadbolt locks, smoke detectors, an alarm system, storm shutters or fire retardant roofing material. Persons over 55 years of age or long-term customers may also get discounts.
- Insure your house, NOT the land under it. After a disaster, the land is still there. If you do not subtract the value of the land when deciding how much homeowner's insurance to buy, you will pay more than you should.
- Act now. Don't wait until you have a loss to find out if you have the right type and amount of insurance.
- Get replacement coverage, not an "actual cash value" policy. Make certain you purchase enough coverage to replace what is insured. An "Actual Cash Value" policy is cheaper but pays only what your property is worth at the time of loss – your cost minus depreciation for age and wear.
- Ask about special coverage. You may have to pay extra for computers, cameras, jewelry, art, antiques, musical instruments, stamp collections, etc.
- Remember that flood and earthquake damage are not covered by a standard homeowner's policy. The cost of a separate earthquake policy will depend on the likelihood of earthquakes in your area.
- Homeowners who live in areas prone to flooding should take advantage of the National Flood Insurance Program.
- For more information on homeowner's insurance in your state, contact your state insurance regulator. Shopping around can save you hundreds of dollars a year.

Umbrella policies

Student Guide, Page 49

SAY…You can add more personal liability with a stand-alone “umbrella” policy. This is a cost-effective way to increase your liability coverage by $1 million or more, in case you are at fault in an accident or someone is injured on your property. It supplements the insurance you already have for home, auto, and other personal property.

Slide 42: Choosing an Insurance Company

SAY … The financial strength of an insurance company is highly important because an insurance policy is a long-term commitment. Determine company strength by looking at rating agency assessments of the companies you are considering.

REVIEW the information on the slide and discuss rating agencies.

SAY … Rating agencies evaluate insurance companies by examining their financial condition and operating performance, using specific criteria.

- The ratings agencies assign ratings of a company’s financial strength and ability to meet obligations to policyholders.
- Insurance Companies are rated by these third-party agencies on a regular basis and the agencies offer their ratings and analysis online for free. However, some insurance companies are not rated by all the rating services.
- There are four main rating agencies, and each agency’s rating system varies in stringency and methodology. All the agencies consider a company’s financial leverage, management stability, recent performance, overall financial health, and external factors such as competition, diversification, and market presence.

PROVIDE the websites for the top four rating agencies:

AM Best	www.ambest.com
Fitch	www.fitchratings.com
Moody’s	www.moodys.com
Standard & Poor’s	www.standardandpoors.com

SAY … A good rule of thumb is simply to identify the top-rated companies that offer the particular type of policy you want. Don't worry too much about the details. An insurance company with a top rating from at least three of the four agencies is in great standing. Here are some other consideration:

- **Does the insurance company hold itself to official ethical standards?**
  Each carrier adheres both to its own ethical practices and to basic guidelines dictated by each state's respective insurance department. (Find a directory of each state's insurance department at www.naic.org.)
- **How many complaints – and of what nature – are filed against the company in question?**
  Most insurance carriers won't have a spotless record, but some are worse than others. Each state's department of insurance maintains data on the number of complaints filed against an insurance company, as well as pending class-action lawsuits.
- To find your state's Department of Insurance, go to the website of the National Association of Insurance Commissioners (NAIC) at www.naic.org.
- Run an online search for the company name to find out if negative comments exist on unofficial complaint sites

Choosing an Agent

SAY … Insurance is complex. Paying an experienced professional a reasonable commission and/or fee to find you the right policy and company to suit your specific needs may be worth the money. Working with a qualified insurance adviser gives you an objective opinion and helps you weed through the options. However, if you are comfortable with your understanding of your needs and the products available, going to a website that offers comparisons can work. Keep in mind that companies offer the same premium no matter how you buy the policy – through an agent or on a website.

- Choose an adviser that represents multiple companies. If they represent only one company they can offer you only that company's products—not necessarily the best products in the marketplace.
- The policy you buy through an agent or broker will include a commission based on the total premium for the policy. Ask questions to make sure the commission and/or fee is reasonable. Beware of paying both a fee and commission. You can negotiate fees and sometimes commissions are negotiable too.

SAY … **Remember** — Being educated helps you get the right insurance for you. You are in charge, and its' your money. If what's offered is not just right for you, say no.

State Compliance

SAY ... Any person selling insurance must be licensed. Just like an attorney who has to pass the bar in any state in which he/she intends to practice, life insurance salespeople are required to pass an exam administered by each state's department of insurance, as well as to enroll in continuing education seminars on a regular basis.

- The representative you ultimately select must be licensed in the state where you, the insured, either work or live.
- Find a directory of state departments on www.naic.org.com.
- The resources and compliance standards within state insurance departments are more lax in some states than in others.
- On most state insurance departments' websites you can research whether an insurance representative is licensed.

Professional Designations

- Life insurance agents may earn such professional designations as Chartered Life Underwriter (CLU) and Life Underwriter Training Council Fellow (LUTCF). Agents who are also financial planners may carry such credentials as Chartered Financial Consultant (CFC), Certified Financial Planner (CFP), or Personal Financial Specialist (CPA–PF).
- These designations indicate that an agent has completed advanced training and passed rigorous exams. They let you know the agent is serious about professional development.
- CLU is the only designation that specifically focuses strictly on life insurance and is by far the most comprehensive in the life insurance arena. A Chartered Property Casualty Underwriter (CPCU) can assist you with homeowners and auto insurance and related areas.

Insurance Tips

- Shop around and be sure you understand the basis for any rejection or modified premium you encounter.
- Check rating services to learn the financial stability of companies you are considering.
- Choose the appropriate type and amount of insurance for your property and lifestyle. Be sure you are fully covered for disability, long-term care, flood, earthquake, etc., but cut unnecessary riders and review your policies annually.
- Be honest when filling out your application. If you fib or omit anything, your entire policy may be voided, usually at claim time.
- Take advantage of discounts such as multiple policy discounts, home safety, low mileage discount, marital discounts, and preferred health reductions.
- Read your policy carefully. Make sure you fully understand your policy and all its terms.
- Cover yourself. Be aware that premium notices may not always reach you in the mail. Save copies of your insurance policies, notes from conversations with your insurance agent/broker, and other important documents in a safe location. Store electronically or keep copies outside the home.
- Reduce your risks. Some ideas include
- Quit smoking
- Eat healthy and exercise regularly
- Perform household maintenance such as reducing fire hazards
- Drive safely (watch your speed and avoid tailgating)
- Pay your premiums more frequently to reduce total cost. Calculate your savings: http://www.tonysteuer.com/apr-calculator/
- Increase your deductible. Generally you'll see significant savings if you pay more out-of-pocket.

What's That Insurance

Student Guide, Page 50

DIRECT students to complete the following questions in the ***What's That Insurance?*** activity in their *Student Guide, page 50*.

- In what situations can having …
  … auto insurance protect you?
  … renter's or homeowner's insurance protect you?
  … health insurance protect you?
  …disability insurance protect you?
  … long-term care insurance protect you?
  … life insurance protect you?
  … an umbrella policy protect you?
- Once the activity has been completed, ask each student to share one with the class. Have the class guess each type of insurance being described based on the definition provided.

Slide 43: Estate Planning

Student Guide, page 51

Wills and Trusts

Have students answer this question in their workbooks (Student Guide, page 51).

ASK …If you were on vacation in Europe and you unexpectedly needed to ask a family member to watch your house and pay bills, do you have a clear plan to tell them how to do this?

INSTRUCT students to write their answers in the **Warm-Up** activity in their student guides, page 51 and **DISCUSS** why it's important to plan ahead.

ASK …If you do not have a written will or living trust, who will decide where your kids and assets go if you pass away? Without a will, the court gets to decide where the assets of the deceased go without that person's input.

- When a person passes away without a will or living trust, the State decides how to distribute their assets. If they have children under the age of 18, the state would also decide where the children go.

- Do you trust the state with your kids or money? If not, then write a will. In fact, do it now: In case I pass away I want _____ to look after my children and I want ____ to inherit________.
- A few lines is better than no will at all; however, you'll be better protected if you get a form online or talk to a lawyer.

EMPHASIZE that it's always important to plan ahead. Remind students that, in this entire unit, they've learned the importance of planning ahead and preparing for the future.

ASK …What do you think a will and/or a trust is?
Listen to their responses.

FACILITATE a discussion and explain the following points.

- A will or trust is a way to plan ahead, just like when you created your financial plans for the immediate future. A will or trust is a financial plan for someone's assets when they are no longer here.
- Living trusts allow assets to be passed to a person's heirs without going through probate. Avoiding probate saves many costs associated with probate courts and potential taxes. It also helps maintain privacy.

SAY … Here are definitions of some of the common estate planning terms.

- **ESTATE PLANNING.** Preparing a plan for distribution of your assets and responsibilities before passing away. Estate planning can include will, trusts, power of attorney, etc.
- **WILL**. Designates which beneficiaries will receive the assets of your estate after you pass away. A will can also establish who will take care of your minor children.
- **TRUST**. An arrangement where a trustee holds legal title to property for a beneficiary. You can be the trustee of your own living trust.
- **PROBATE**. The process of administering a person's estate after he or she passes away.

EXPLAIN that if there are instructions (will, trust) given by the deceased, the probate court will follow those guidelines. If there are no instructions given, the court takes control and decides what happens to the estate.

Slide 44: Estate Planning Action Plan

SAY … Now that you understand the basics of estate planning, you can develop your own action plan

- It's important to have *both* a will and a trust. Get your wishes down on paper and be as clear as possible.
- Wills and trusts are designed to make it easy for your relatives by providing all your account information and a clear accounting of how your assets will be distributed. A lot of family fights are caused by disagreement over who gets what.
- Be sure not to place your family in a difficult financial situation. For example, if your budget is tight, don't ask for an expensive funeral.

EXPLAIN that the general rule is that once you have anything of value, you should write out a will. There are plenty of free forms online. Once you start to amass greater wealth, you may want to hire a lawyer to craft a living trust for you.

- It's good to have a discussion with your parents (and/or families) about their plans.
- Store your will in a secure place and send a copy to one of your loved ones for safekeeping.

Insurance & Risk Management Review & Unit Questions

RECAP the insurance section.

- You know how insurance can protect you and the basic concepts behind risk management.
- You understand the basic terminology associated with insurance.
- You know how to evaluate risk and choose risk avoidance options that best fit your situation.
- You have created an insurance plan that identifies areas you may want to consider protecting.
- You have set aside a time to talk with several different insurance companies to ensure you have the policies that best protect you and your family.
- Your bills are set up on auto pay so you can rest comfortably knowing your insurance payments are made on time to avoid any lapse in coverage.
- You have scheduled a day each year to review your insurance.

RECAP the estate planning section.

- You know the importance of having an estate plan that clearly describes what you want to happen with your assets and/or dependents if you pass away.
- You understand the basic terminology associated with estate planning.
- You have a written will in place and a commitment to update it on a regular basis.
- For those with a larger number of assets or dependents, you have set aside time to research and talk with experts about the estate plan that will best protect you and your family.
- You have scheduled a day each year to review your estate plan.
- Each time you make changes to your will or trust, you send updated copies to loved ones.

ASK students to complete the Insurance & Risk Management Unit Questions in their student guides, page 52.

Insurance & Risk Management: Unit Questions

1. What is insurance? ____

   ____

2. Complete the following sentence:
   Insurance is a way to manage one's ________________. **(risk)**

3. Insurance can protect people from loss or damages to:
   a. their property.
   b. their lives.
   c. other people.
   d. all of the above.

4. Name two reasons why it's important to have insurance.

   a. ____

   b. ____

5. Why do banks and other lenders want you to insure any property they lend you money to buy?
   a. because they don't trust you.
   b. to protect their investment in case of loss or damage.
   c. because it's always required by law.

6. Name two types of insurance it's vitally important to have in today's age.

   a. ____________________ b____________________

7. Name three types of insurance policies.

   a. ____________________ b____________________ c. ____________________

8. If you are healthy and rarely get sick, why should you have health insurance?
   a. because you can borrow against the premium.
   b. because your employer pays for it.
   c. because health insurance protects you against having to pay for an unexpected injury.

9. The terms ***deductible*** and ***co-payment*** both refer to out-of-pocket costs you must pay before your health insurance kicks in. ☐ True ☐ False

10. You should always choose the insurance policy that offers the lowest premium.
    ☐ True ☐ False

11. List the types of insurance you think ***you*** need to help you meet your personal and financial goals.

    a. ____________________ b____________________ c. ____________________

Section Goals

- ❖ Students will receive a high-level overview of the road to retirement.
- ❖ Participants will begin their initial retirement plans.
- ❖ The class will gain a better understanding of what retirement means to them.
- ❖ Students will become motivated to learn the subject matter.
- ❖ Students will understand the role money plays in retirement planning.
- ❖ Participants will build increased confidence in their ability to manage their personal finances into retirement age.

SLIDE 45: Road to Retirement

Student Guide, page 53

SAY … This section is called "The Road to Retirement," and first, let's talk about what retirement means.

Each of us has a different vision of retirement. For some people, it means spending more time with family. For others, it might signify traveling the world. Still others might still need to work, but they have a sense of financial security.

Even though there are millions of different retirement goals a person might have, there is one thing everyone has in common. We all need to pay for our senior years.

INSTRUCT participants to write down their ideal image of retirement in the box provided in their student guides, page 53. Once they've completed the assignment, discuss their answers as a class.

Slide 46: Definition of Retirement

REVIEW the "old" and "new" definitions of retirement with the participants.

SAY … The old definition of retirement was "withdrawal from one's position or occupation or from active working life." The new definition of retirement for many people is "achieving a state of financial wellness and security so they can live the lifestyle they desire."

In this new retirement age, some people will still have to work. The goal is to have enough financial security to earn income doing something you enjoy and are passionate about.

This section aims to help you clearly define your retirement goals, create a personal financial plan to reach them, and give you a system to assist you down the road to retirement.

Why Achieve Financial Wellness

TELL students that there are many compelling reasons to start planning for retirement as soon as possible.

SAY … Here are some of the most common reasons:

- Have enough money that you feel secure.
- Be able to work if it aligns with your passion.
- Be able to live the lifestyle you want to live.
- Be able to take care of your family.
- Rid yourself of the worries and stress that go hand in hand with bills and debt.
- Be free to do what you want when you want.
- Have independence and security.
- Be able to make a difference in the world.
- Experience freedom from worrying about having enough money to enjoy life.
- Be able to purchase things like toys or travel.

Slide 47: Retirement Quotes to Ponder

SAY … Here are some more quotes to get you started thinking about your ideal retirement.

"Retirement has been a discovery of beauty for me. I never had the time before to notice the beauty of my grandkids, my wife, the tree outside my very own front door. And, the beauty of time itself." Hartman Jule

"I enjoy waking up and not having to go to work. So I do it three or four times a day."
Gene Perret

"Retirement gives us the freedom to spend our days following our passions and making a lasting difference in the world." Vince Shorb

FACILITATE a discussion about the following quotes which illustrate the important link between personal financial status and retirement:

"The question isn't at what age I want to retire; it's at what income." George Foreman

"*It's nice to get out of the rat race but you have to learn to get along with less cheese.* "
Gene Perret

"Retirement is like a long vacation in Las Vegas. The goal is to enjoy it to the fullest, but not so fully that you run out of money." Jonathan Clement

SAY ... I want you to start thinking about your retirement. Once you're retired, what will you be doing? How do you envision a typical day? Then we'll go over some strategies to get you to the place where you can actually live that ideal life.

SHARE your personal opinions about what retirement means to you. Be vulnerable and open. Show that you're willing to share personal and emotion-based thoughts will open participants up and help them feel safe to reciprocate.

SAY ... Now that I've shared a little about myself and how I view retirement, would any of you be willing to share what retirement means to you?

DISCUSS the answers. Engage, acknowledge, and connect with each individual who shares.

TRANSITION

SAY ... As you can see, each person has a different view of retirement. Right now, each of you will define your own ideal retirement.

Slide 48: Questions about Retirement

SAY ... Thank you all for sharing. While we're talking about ideal retirement, I'm sure that we all have many questions in general, such as:

- When should I start saving?
- What is a reasonable amount of monthly income for retirement?
- What about Social Security?
- How can I make sense of all the confusion surrounding investments?
- Is real estate a good investment anymore?
- Is a savings account enough to put away for retirement?
- Who can I trust with my money?

How People Get Off Course

Student Guide, page 54

SAY … To understand how to stay on course down your road to retirement, it's important to know how people get off course. Let's review the common reasons why people get into financial problems.

REVIEW and ask students to place a checkmark next to each area in their student guides, page 54, where they feel they need to improve.

- No clear understanding of how much money they will need to live the lifestyle they desire, once they retire.
- No clear financial goals.
- No trusted financial mentor, advisor, or coach.
- Poor financial choices due to lack of financial knowledge.
- Lack the confidence they need to make necessary financial moves.
- Poor financial choices, due to emotions. Fear can force inaction instead of decisiveness. Greed can force rash and impulsive decisions.
- Take advice from the wrong people. Friends are well-meaning but often misguided or not qualified. Salespeople only want to sell a service, not help your financial wisdom.
- Many smaller financial problems have grown uncontrollable.
- Unrealistic expectations of investment returns.
- Do not invest properly due to lack of knowledge.
- Do not take advantage of employee benefit plans or tax laws.
- Continue with poor financial habits developed at an early age.
- Failure to properly plan their estates.

SAY … Most people have a lot of check marks on the list, and that's okay. By taking this course, you're learning how to avoid these common pitfalls and stay on track with your dreams.

Slide 49: Emotions and Financial Decisions

DISCUSS briefly the questions on the slide:

- How do you feel about your current financial situation?
- How do you feel when you make small financial decisions?
- How do you feel when you make large financial decisions?
- How do you feel when you think about retirement?
- How do you feel when you talk to your loved ones about money?

Emotional Roller Coaster

Student Guide, page 55

READ the scenario presented below and ask the class to complete the Money & Emotion activity (*Student Guide*, page 55) identifying what feelings Cynthia may experience while going through each of the situations:

Money & Emotions Activity

List the emotions Cynthia may experience in each of the following situations:

Cynthia gets her 401K statement and it's gained 10% in one month. ______________________ ______________________

The next month, Cynthia's 401K statement is down 12.%. ______________________

Cynthia thinks she should move the money but she's not sure what investment would be best. ______________________ ______________________

A friend tells Cynthia about a stock that's ready to shoot up. This friend knows someone who works for the company and is putting his entire savings into the investment. ______________________ ______________________ ______________________

Cynthia pulls her money out of her investments and uses it all to buy the hot stock tip. It's down 35% this week. But she's holding on. ______________________ ______________________ ______________________

ASK if anybody has ever felt those types of emotions when making financial decisions, or describe an emotional response that you experienced when making a money management decision.

DISCUSS why it's important to identify and become aware of their emotional responses as they develop their own personal financial literacy.

Math + Emotions

Now that students have identified the connection between emotions and money, they need to learn how to stay emotionally detached during financial decisions. Let students know that emotions skew facts and logic; they'll end up making emotion-based decisions instead of fact-based decisions.

DISCUSS each of the equations below:

SAY … **1 + 1 = 2**

This is simple and straightforward.
No emotional attachment.

1 + 1 + stress, worry, fear = -1
Fear will keep you from taking a risk.
Fear is what forces someone to save money in their mattress or a mason jar.

1 + 1 + greed, overconfidence = 5
Greed will force you to make a risk that might not be wise.
Overconfidence will blind you from potential mistakes.
Sometimes that "5" can be a "-2" (negative two).

INFORM participants that, when they become too emotionally connected to a financial decision, it's like wearing blinders that obscure the right decision.

Financial Stress Indicators

Student Guide, page 56

INSTRUCT participants to use the graphic on page 56 to answer each of these questions.

❶	❷	❸	❹	❺	❻	❼	❽	❾	❿
Not Stressed									Highly Stressed

- How do you feel about your current financial situation?
- How do you feel when you make small financial decisions?
- How do you feel when you make large financial decisions?
- How do you feel when you think about retirement?
- How do you feel when you talk to your loved ones about money?

Slide 50: Tips to Lower Emotional Decisions

Student Guide, page 57

REVIEW the steps in the slide.

- Only invest with **risk capital** – that is, money you can afford to lose.
- Gain a high-level knowledge base about any investments you're considering.
- Build a team of trusted advisors.
- Before making any decision, take time to evaluate it logically.
- Reduce the influence of emotions by participating in an activity that reduces your stress levels. Weigh your options at times when your emotions have less impact – during exercise, prayer, meditation, deep breathing, a relaxing morning cup of coffee, or whatever method works for you to reduce your emotional response.

DIRECT students to initial each item above to solidify and mark their commitment (*Student Guide,* page 56)

Spending Habits

Student Guide, page 57

WRITE the three money personalities on the board and explain each one to the students.

- ▶ **OVER-SPENDER.** This person loves money, lives for the present, and doesn't worry about the future. Over-spenders tend to spend money at any opportunity, and have no savings. They can be found looking for spare change in the couch, living paycheck to paycheck, and borrowing money for emergencies.
- ▶ **BALANCED**. This person strikes a healthy balance between saving and spending. Balanced people know when they can enjoy a night out at the movies or when it's time to stay home and watch a flick on the couch. They look for opportunities to make purchases at a discount, and always have something put away for a rainy day.
- ▶ **PENNY-PINCHER.** This person is so worried about not having money that every little expense causes constant worry. Penny pinchers don't enjoy their hard-earned money at all. Their biggest fear is not having enough money, and they never know when it's okay to spend.

FACILITATE a discussion about the money personalities, and ask students to share some traits they think might be associated with each type. Ask students to tell you which personality they think they are; which one they would like to be; and why. **DISCUSS** why it's important to identify one's money personality.

ASK … Why is your money personality relevant to your personal finances?

ENCOURAGE participants to gravitate toward the middle and create a balanced relationship with their finances.

DIRECT students to use the graphics in *Student Guide* page 57 to rate their current spending habits and where their spending habits should be to live the lifestyle they want in the future. Have them list the steps they can take to better balance their approach to personal finances.

Rate your current spending habits:

❶ ❷ ❸ ❹ ❺ ❻ ❼ ❽ ❾ ❿

Over-Spender Balanced Penny-Pincher

Rate where your spending habits should be to live the lifestyle you want in the future:

❶ ❷ ❸ ❹ ❺ ❻ ❼ ❽ ❾ ❿

Over-Spender Balanced Penny-Pincher

What steps will you take to better balance your approach to personal finances?

____
____
____
____

Risk Tolerance

Student Guide, page 58

SAY … It's important to be emotionally and financially comfortable with the investments you make. With most investments, the greater risk you're willing to take, the greater the potential return.

As you gain more knowledge about financial matters, build a trusted team and a solid financial foundation, your risk tolerance may change. Then you might feel more comfortable to make investments that offer a higher return.

CLARIFY that you'll be covering risk management strategies later. Right now, they'll focus on determining the level of risk they can handle comfortably.

DIRECT students to the **Risk Tolerance Activity** (*Student Guide,* page 58) and have them circle the answer that best describes how they would handle each of the three situations.

Risk Tolerance Activity

1. You won $20,000 in a contest. What do you do with that money?
   a. You invest it all into a hot stock tip that you think will quadruple your money.
   b. You decide to spread it across various investments that you feel can generate good returns.
   c. You want to keep the money safe, so you put it into an investment that gives you minimal growth but cannot lose money.

2. You invested in a few stocks and now you're down 50%. Your account started at $20,000; now you're at $10,000. What do you do?
   a. You let it ride and hope it goes up.
   b. You sell and make other investments you believe will be better.
   c. You sell and put the money into a safe investment that offers low returns but where you can't lose money.

3. In which of the following would you rather invest?
   a. A stock where you can lose all your money but which has the potential for huge returns.
   b. An investment where you can limit your losses, but your gains are likely to be average.
   c. An investment where you cannot lose money, but you are making consistent, small returns each year.

DISCUSS the results with the class.

SAY … If you answered mostly "***a***," you probably have a high risk tolerance.

If you answered mostly "***b***," you're open to taking some risks, but preserving capital is important to you.

If you answered mostly "***c***," you are risk-averse and prefer to avoid investments that offer any risk.

ENCOURAGE students to take a more detailed risk assessment developed by two university personal finance professions: Dr. Ruth Lytton at Virginia Tech, and Dr. John Grable at Kansas State University.

Students can access the test at http://njaes.rutgers.edu/money/riskquiz.
The URL is also noted in the *Student Guide* (page 58).

EMPHASIZE that it's important to stay within their risk tolerance levels. They should stick with investments that they can handle emotionally. **TELL** students that, as they gain knowledge, build advisor teams, and accumulate risk capital, they may feel more comfortable making riskier investments that fit into their investment plan. **REVIEW** the definition of *risk capital*.

Relationships

Student Guide, page 59

SAY … It's important to understand how personal relationships and communication affect money.

DIRECT them to the ***Warm-Up*** exercise on page 59 of the *Student Guide,* have them answer the questions, and discuss their responses.

- Is there one person in the world that you tell everything? If so, who is that person?
- Would you give that person complete access to your finances and your financial plans?
- Why or why not?

INSTRUCT students to rate (on a scale of 1 to 10) their communication level about personal financial matters with family, spouse, or loved ones about personal financial matters.

Rate your level of communication with your family and parents.	❶ ❷ ❸ ❹ ❺ ❻ ❼ ❽ ❾ ❿ Nonexistent Excellent
Rate your level of communication with your spouse or significant other.	❶ ❷ ❸ ❹ ❺ ❻ ❼ ❽ ❾ ❿ Nonexistent Excellent

EXPLAIN that money issues often cause disagreements in relationships. Money is a leading cause of divorce, so it's important to discuss financial matters as part of getting to know each other.

- Share any stories about couples that you know (or have as clients) where money has impacted their relationship.
- Be sure **not** to mention names.

Tell students that many couples and families have issues around discussing finances, and have trouble being open with each other about their spending/saving habits.

SHARE that family and other loved ones can greatly affect one's long-term financial planning:

- Having to take care of a parent financially;
- Deciding whether to have children;
- Lifestyle choices of loved ones.

SAY … Many people find it important to talk with their parents or other close family members about their financial situations, too.

- Do your parents and loved ones have a plan to take care of their own retirement, or will you be taking care of them?
- Do your parents or loved ones have healthcare coverage?
- Do your parents or loved ones have long-term care insurance? Can they afford to pay for assisted living on their own, or will they need to live with you?
- Do your parents or loved ones have enough funds to pay for their funerals?

- Do your parents or loved ones have a will or living trust in place?
- Is each sibling clear about his/her responsibilities if a parent or loved one passes?

POINT OUT that, if they do not have all the answers to the aforementioned questions, it's a good indicator that they should set up a time to have a financial discussion with their loved ones.

EXPLAIN that, while this conversation can be challenging, they should remember that they're doing a great service for their families.

SAY … Financial matters are also important to discuss once a relationship starts to get serious and you begin talking about a future together.

- Learn about each other's financial goals. If you're measurably more frugal than your partner, he/she may have an issue with you saving money. On the other hand, you may have an issue with your partner spending excessively.
- Make sure you ask a new partner about his/her credit history and debt situation.
- Observe a new partner's spending habits. For example, is he always buying things he doesn't need? Is she really cheap? Or is he/she somewhere in the middle? **This is very important to consider.**

EXPLAIN the importance of sharing and learning about your partner's savings and investments. Tell them to ask about major expenses they may be planning.

Financial Communications Game

Student Guide, page 60

SAY … Create family financial goals together. Building this bigger vision will influence your future financial decisions.

ENCOURAGE students to play the **Financial Communication Game** (*Student Guide,* page 61) with their spouses or loved ones – anyone who may have an impact on their personal financial situation. The game helps open lines of communication about finances.

SAY … Before starting the game, make sure you're currently on good terms and are both open to communicate. If you had a recent argument or if there's tension in the air, wait to play the game. Also, if you are seeking counseling, work with your counselor to facilitate the game.

Together, brainstorm your financial and retirement goals. Use the first chapter of the book (Goals & Dreams) to guide you. Initially, write down every thought. Just write – do not judge.

Once each of you has put ideas on paper, discuss each one together. Prioritize and list them in order of importance. You will disagree on some items. If, after a minute or two, you are unable to reach consensus, mark that item for later discussion.

During the game, be sure to remind each other that you're doing this because you care about each other. That will help you stay on course.

This game typically requires multiple meetings and planning to ensure proper alignment.

REMIND students that opening lines of communication about money helps them proactively address the leading cause of relationship problems.

COMMEND the class for their efforts, and tell them this communication will help them build stronger relationships and financial foundations.

DIRECT students to the questions on page 60 of the *Student Guide*, and request their feedback.

- How do relationships affect money?
- Why is it important to have open communication about money?

TRANSITION

SAY … Now that you're more aware about the personal emotions you experience when making financial decisions, let's fast-forward to your retirement and identify your potential income sources.

Slide 51: Potential Retirement Income Sources

Student Guide, page 61-62

REVIEW the list of retirement income sources on the slide, and provide the following additional information (*Student Guide*, page 61).

SOCIAL SECURITY INCOME (SSI) is a retirement benefit offered at age 62 and older. If you start claiming SSI at age 62, your benefits will be about 30% less than if you wait until age 67. If you wait until age 67, you qualify for full payments.

In 2012, a worker who retires at age 66 would receive a maximum check of about $2,500. Find out the benefits you may receive by checking the Social Security website http://www.socialsecurity.gov/estimator/.

SSI benefits are likely to be significantly reduced in the future. From the Social Security website: Your estimated benefits are based on current law. The law governing benefit amounts may change because, by 2033, the payroll taxes collected will be enough to pay only about 75 cents for each dollar of scheduled benefits. Although they suggest using 75 cents to calculate your potential benefits, government organizations can put out "best case" scenario figures. Ideally, you want to be able to retire without relying on SSI benefits.

EXPLAIN briefly why SSI benefits will likely be reduced due to factors such as the national debt, people living longer, etc.

- **PENSIONS.** A pension is a type of retirement plan that provides people with an income after they retire. Pensions come in various forms and may be a defined benefit or defined contribution. A defined contribution provides an income source dependent upon the employee's contribution and investment performance. A defined benefit typically provides retirement income based on an employee's salary and number of years they were involved in the plan. A hybrid plan combines features from both. We'll cover these plans in detail later.

- **ASSETS.** Compared to Social Security and pension plans, you have much greater control over your assets. An asset is something of monetary value that you control with the expectation that it will provide future benefits to you and your family. Some examples of assets are stock holdings, IRAs, home equity, bonds, treasury notes, rental properties, metals, or mutual funds. Asset income may come from interest, rental payments, royalties, dividends, and other forms. You also can sell assets to help fund your retirement.

- **ANNUITIES.** Annuities are insurance products that pay income to investors. Annuities are commonly used as a retirement strategy for those seeking an income source at retirement. Investors can set up an annuity to provide income for a specific period of time, usually designed to span their lifetime. Annuity income depends on your investment, length of payments, performance, and the type of annuity chosen. There are two common annuity types:
  - Fixed: provides a guaranteed payout;
  - Variable: income is determined by performance of the underlying investments.

- **EMPLOYMENT.** Continued employment is another source of income during retirement. Some retirees choose jobs that provide medical benefits to reduce health coverage costs. To achieve true financial freedom, you want to be in a position where you don't have to work but choose to work, in order to fulfill other lifestyle goals.

  If you seek to work after retirement, try to find a job that aligns with your passions and strengths. Look for a job that fits your lifestyle goals and fulfills you on all levels.

- **ENTREPRENEURSHIP.** Entrepreneurship is an investment of time, energy, and money which can yield excellent returns. While it's not for everyone, working for yourself can be rewarding and lucrative. Creating a business around your passions might provide a few hundred dollars of supplemental income, or become your main income source. Your own business can be a fun project to help you stay active. At the end of the day, we're all business owners. We're in the business of building brighter and better futures for ourselves.

SAY … If you decide the entrepreneurial route is right for you, keep in mind all the points you learn during this course. Starting a business is an investment, and you must manage risk. Don't invest more than you can afford to lose

DIRECT participants to the **Retirement Income Activity** (*Student Guide,* page 62) and have them estimate their income at retirement age. Point out that they may not know all the answers right now. Encourage them to get the answers prior to the next class session so that they can accurately estimate their income at retirement.

Retirement Income Activity

Estimate your income at retirement age. For any of those areas about which you're not sure, try to obtain the answers before the next class session.

Social Security	$____________
Assets	$____________
Pensions	$____________
Annuities	$____________
Employment	$____________
Entrepreneurship	$____________
Other	$____________
Total Estimated Income at Retirement	$____________

INSTRUCT students to estimate their income in each area, and then add up the figures to estimate what their total retirement income will be.

Net Worth

Student Guide, page 63

SAY … Now let's move on to calculating your current net worth.

Net worth is a term we'll cover in more detail later, but we'll take a sneak peek at the definition now. Net worth equals your assets (investments, real estate, savings, etc.) minus your liabilities (debt, liens, etc.).

Visit www.financialeducatorscouncil.org/calculator/access/NetWorth.html to access the NFEC's Net Worth Calculator.

EXPLAIN When you build up a large enough net worth to live your desired lifestyle, you can live life on your own terms. Net worth is the measure of your net economic position. You calculate net worth by totaling your assets and subtracting your liabilities (loans, debt, etc.) from the asset figure.

\$ 65,000
– 6,000
– 10,000
\$ 49,000

For example, let's say you have \$65,000 in savings but you owe \$6,000 on student loans and have credit card debt of \$10,000. In this example, your net worth would be \$49,000.

Net worth is important to give you a good idea where you're starting from financially. Calculate your financial net worth using the chart below.

The following provides some examples of assets and liabilities to consider (next page):

ASSETS

Home. Use the current value of your home to calculate its worth as an asset.

Other Real Estate. The value of any other real estate you may own.

Automobiles. The total value of all automobiles that you own. Do not include leased vehicles.

Metals. The value of gold, silver, or other precious metals in your possession.

Retirement Accounts. The current total balance of your retirement accounts. Include IRAs, 401(k) savings, SEP IRAs, variable annuities, and any other retirement savings accounts.

Bonds. If you own any Treasury, municipal, or commercial bonds that are not part of your retirement accounts, include them in the Assets column.

Stocks. Any individual stocks that are not part of your retirement accounts.

Mutual Funds. Any mutual funds that are not part of your retirement accounts.

Cash Value of Life Insurance. Some life insurance policies, such as whole life and universal, have cash value. Term life policies, on the other hand, have no cash value.

Savings Bonds. Count any savings bonds that are not included in your retirement accounts as assets.

Checking and Savings Accounts. The current total balance of your checking and savings accounts.

Cash.
Include any cash on hand.

LIABILITIES

Home Mortgage Principal. This is the current principal balance remaining on your mortgage — that is, the amount you would have to pay to own your home free and clear.

Other Mortgage Principal. The current principal balance for any other real estate mortgages you have. Include mortgages on rental property, undeveloped land, commercial property, or any other real estate.

Credit Card Debt. Your total credit card debt.

Auto Loans. Total amount currently outstanding on your auto loans.

Student Loans. Total amount, if any, that you currently owe in college or student loans. Enter the total outstanding amount even if your student loans are currently deferred.

Other Loans. Total amount of any other loans.

Net Worth Activity

Assets	
Personal Residence	
Rental & Other Properties	
Physical Metals (Gold, Silver, etc.)	
Jewelry, Art, etc.	
Automobiles	
Other	
US Government Bonds	
Corporate Bonds	
Municipal Bonds	
Bond-Based Mutual Funds	
Other	
Stocks	
Stock-Based Mutual Funds	
Variable Annuities	
Other Annuities	
Life Insurance with Cash Value	
Business Partnership Interest	
Other	
Savings Account	
Checking Account	
Money Market Account	
Certificate of Deposit	
Other	

Liabilities	
Real Estate Mortgages	
Retirement Loans	
Student Loans	
Credit Card Debt	
Payday Loans	
Personal Loans	
Auto Loans	
Life Insurance Loans	
Margin Account Loans	
Other	
Other	
Other	
Other	

Totals	
Total Assets	
Total Liabilities	
Assets minus Liabilities = **Net Worth**	

RECAP the Current Road Conditions section.

- You remember the common reasons why people get off course financially, and how to avoid them.
- You are aware how emotions affect financial decisions.
- You understand that finances influence your personal relationships, and have a plan to communicate with your loved ones about your financial future.
- You have taken inventory of your financial knowledge, and know your own spending habits and your tolerance for risk.
- You understand some common sources of retirement income and your own net worth.

Section Goals

- ❖ Students will understand investing and why people invest.
- ❖ Participants will outline the risks of investing and become equipped to prepare for investment.
- ❖ Students will understand the opportunity costs within investments.
- ❖ Students will identify the differences between good debt and bad debt.
- ❖ Participants will learn about trusted advisors and how to find them.
- ❖ Students will understand cash flow and how it affects long-term planning.
- ❖ Students will demonstrate proficiency in financial planning for their futures.

Slide 52: Investment Overview

Student Guide, page 65

SAY … Our next discussion will be about investing. What do you think the word *investing* means?

INSTRUCT students to write a personal definition in the **Warm-Up** exercise (*Student Guide*, page 65). Discuss their responses.

EXPLAIN that there are many reasons why people invest money. The top reason people invest is to see a *return (profit)* on the investment.

Why Do People Invest?

REVIEW

- **FINANCIAL SECURITY.** Many people decide to learn how to invest because they want to fee financially secure. They don't want to worry about bills or being able to afford things they want.
- **LIFESTYLE**. Earning money via investments can help people afford their desired lifestyles. Investing gets people's money working for them, instead of them having to work for every dollar. And investments help free up time so people can enjoy life.
- **RETIREMENT.** Most people today rely on Social Security (SSI) –a social welfare program that provides monthly payments to people over the age of 65 – and Medicare – a social welfare program that provides medical insurance coverage to older people – to retire. SSI and Medicare will likely be bankrupt by the time you reach retirement age. You probably will receive very limited or no benefits, so you must plan early to fund your own retirement.
- **BEAT INFLATION.** Inflation is defined as "too many dollars chasing too few goods." Inflation drives prices up. Putting your money to work for you through investing can help you become financially comfortable and give you the freedom to live the lifestyle of your choosing. You can achieve financial comfort in two ways:
  - Build up your net worth; and
  - Build up your cash flow.

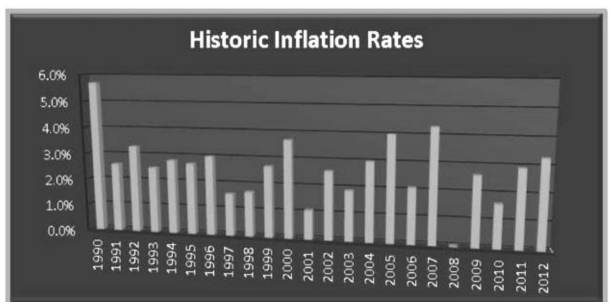
- **NET WORTH** is the measure of your net economic position – how much money you have after your liabilities are subtracted from your assets.
- **CASH FLOW** is the amount of money you have coming in on a regular basis from your investments or other sources

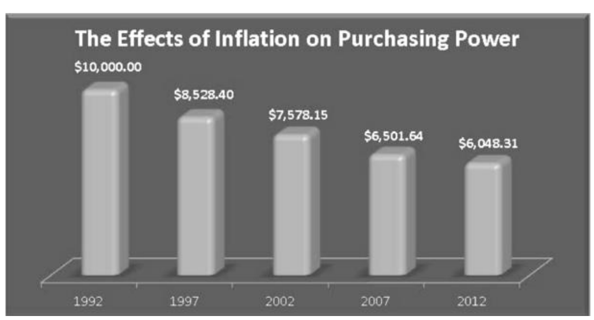
Charts on Inflation

Student Guide, page 66

SAY … If you don't invest, you will actually lose money to inflation.

Look at the charts to see how inflation has affected the purchasing power of the dollar over the years.





SAY … If you live on a fixed income when you retire, inflation can have a big impact on your financial situation. It is essential that you understand and plan for the effects of inflation.

INSTRUCT students to answer the questions in the **Inflation Quiz** (*Student Guide, page 67)*.

REVIEW the inflationary risk question to ensure that students have a good handle on the topic.

READ aloud the **Case Study** contained within the **Inflation Quiz**.

Historical US Inflation Rates

Year	Percent	Year	Percent	Year	Percent	Year	Percent	Year	Percent
1921	**-11.1**	1941	**11.3**	1961	**0.7**	1981	**8.4**	2001	**1.1**
1922	-0.6	1942	7.6	1962	1.3	1982	3.7	2002	2.6
1923	3.0	1943	3.0	1963	1.6	1983	4.2	2003	1.9
1924	0.0	1944	2.3	1964	1.0	1984	3.5	2004	3.0
1925	3.5	1945	2.2	1965	1.9	1985	3.9	2005	4.0
1926	-2.2	1946	18.4	1966	3.5	1986	1.5	2006	2.1
1927	-1.1	1947	10.2	1967	3.6	1987	4.0	2007	4.3
1928	-1.2	1948	1.3	1968	4.4	1988	4.7	2008	0.03
1929	0.0	1949	-2.1	1969	6.2	1989	5.2	2009	2.63
1930	-7.0	1950	8.1	1970	5.3	1990	5.7	2010	1.63
1931	-10.1	1951	4.3	1971	3.3	1991	2.6	2011	2.93
1932	-9.8	1952	0.4	1972	3.6	1992	3.3		
1933	2.3	1953	1.1	1973	9.4	1993	2.5		
1934	3.0	1954	-0.7	1974	11.8	1994	2.8		
1935	1.5	1955	0.4	1975	6.7	1995	2.7		
1936	2.2	1956	3.0	1976	5.2	1996	3.0		
1937	0.7	1957	3.6	1977	6.8	1997	1.6		
1938	-1.4	1958	1.4	1978	9.3	1998	1.7		
1939	-0.7	1959	1.0	1979	13.9	1999	2.7		

1940	1.4	1960	1.7	1980	11.8	2000	3.7		

Inflation Quiz

If you are earning 1% in a savings account and inflation is at 3%,
will you be able to purchase more or less next year? ☐ More ☐ Less

What if you are earning 7% on a stock market investment with 3% inflation,
would you be able to purchase more or less next year? ☐ More ☐ Less

What if your bank offered you a CD at 4% but you had to keep your money in the CD for 5 years.
What are the risks? ____

____

____

In **Year #1** of the example above, if the inflation rate was 3%, would that give you more or less purchasing power? ☐ More ☐ Less

If inflation jumped to 8% in Year #2, would that investment still make sense for you?
☐ Yes ☐ No

Questions

What is investing? ____

____

Why do people invest? ____

____

What is inflationary risk? ____

____

Case Study

The Federal Reserve is a company that acts as the central bank of the United States. It is not part of the government; however, the Federal Reserve is designed to work within the overall economic and financial policies established by the government. The Federal Reserve is primarily funded by interest on US government securities. One of the Reserve's duties is to regulate money supply. In 2010, the Reserve increased money supply by $600 billion. This is commonly referred to as "printing money," although nowadays they're able to create money electronically. Knowing what you now know about inflation, what do you think might happen to inflation?
Will it increase or decrease? ☐ Increase ☐ Decrease

What do you think will happen to the purchasing power of the dollar?
Will you be able to purchase more or less with $1.00? ☐ More ☐ Less

ANSWER: Less, because the dollar is worth less.

EXPLAIN that many factors go into inflation, but the Federal Reserve increasing the money supply is one of the leading contributors. This process also is known as *monetary inflation*.

SAY … If you have **$100** now, in **33** years – using a **3%** inflation-adjusted figure rounded to the nearest dollar, it would amount to about **$40** in purchasing power.

Inflation Planning

Student Guide, page 68

SAY … Now we will take a look into the future to estimate your budget at retirement. Because most people do not have a good budget, many are forced to go back to work after a few years of retirement.

EXPLAIN the steps that the students are going to take to complete the **Budget at Retirement Activity** (*Student Guide*, page 68).

Budget at Retirement Activity

This activity will build upon the data you gathered in the last section. Now we will be estimating your budget when you reach retirement and planning ahead for the impact of inflation. In this activity you will:

1. Determine your retirement income using the data gathered in the budgeting section.
2. Estimate your monthly expenses and planned purchases at the beginning of your retirement.
3. Choose an inflation rate that will help you adjust the expenses over your retirement. Note any expenses that may grow at a faster inflation rate. For example, the cost of college has regularly increased at a higher inflation rate.

INSTRUCT students to turn back to the budgets they completed earlier to quickly determine their retirement income needs based on their expenses / income.

Living Expenses

Student Guide, page 69

SAY … First, place a checkmark by those items on the net worth activity (student guide, page 64) that will be impacted by inflation.

Go through the list with them, and help them along this activity. Please note that an additional column is put on the budget chart where they can place a checkmark.

Next, have the students decide where they think inflation rates will be. Ask how they can determine inflation rates, and why this might be important for investing.

SAY … There is no crystal ball but gaining knowledge, keeping up to date with monetary policy, and having a trusted team in place will give you a good start.

The next thing we will do is help you calculate your possible living expenses in the future.

INSTRUCT the students to follow the steps outlined in their guide

1. Add up all the items that will be adjusted by inflation;
2. Add up those items that will not be adjusted by inflation; and
3. Multiply your inflation-affected expenses by the inflation rate, and then add your non-inflated expenses to that total.

Since math turns many people off to the learning process, take a moment to reassure the participants that this calculation will be easy.

Impact of Inflation

SAY … You have set aside assets, savings, and investments for retirement, but you know that you need to also consider inflation. You don't know what the rate of inflation is exactly but over the past five years the average inflation rate comes out to be 3%.

Using a 3% inflation rate and expenses totaling $2,000 per month, add inflation to your expenses. Here's what you would enter into your calculator:

$2,000 X (times) 1.03 = (equals) $2,060.

See, easy!

Calculating Inflation

Student Guide, page 69

SAY … This estimates your expenses to increase by $60 at the end of the first year. To calculate inflation for 5 years, simply keep multiplying each new total by 1.03. For example:

Year 1 $2,000 X 1.03 = $2,060
Year 2 $2,060 X 1.03 = $2,121
Year 3 $2,121 X 1.03 = $2,185
Year 4 $2,185 X 1.03 = $2,251
Year 5 $2,251 X 1.03 = $2,318

EXPLAIN that participants who own a home and have a fixed rate mortgage would subtract out the mortgage first, and then add it in later.

SAY … So using the same example above and a mortgage payment of $1,000, your calculations would look like this:

Year 1 $1,000 X 1.03 = $1,030 + $1,000 mortgage payment = $2,030
Year 2 $1,030 X 1.03 = $1,061 + $1,000 mortgage payment = $2,061
Year 3 $1,061 X 1.03 = $1,092 + $1,000 mortgage payment = $2,092

Slide 54: Future Impact

Student Guide, page 69

INSTRUCT participants to complete the **Future Impact Activity** (*Student* Guide, page 69).

Future Impact Activity

Monthly Expense of Items Not Impacted by Inflation ___________

Monthly Expense of Items Impacted by Inflation ___________

Estimated Inflation Rate ___________

Inflation Adjusted Expenses	___________ Year	___________ Year 10	___________ Year 20	___________ Year 30
Total Expense **Items Impacted by Inflation + Items Not Impacted by Inflation**	___________ Year	___________ Year 10	___________ Year 20	___________ Year 30

What steps will you take now to ensure your income is enough to support your retirement lifestyle? ____

What expenditures will you reduce at retirement to ensure your lifestyle goals are met?
____

TRANSITION

SAY … Now that you understand what inflation is, let's talk about ways you can beat inflation and secure your retirement.

Introduction to Investing

Student Guide, page 70

INSTRUCT students to describe on page 70 of their student guides what each of the quotes mean to them.

> *"When you're making money doing what you love, you are already retired."*
>
> *"Many describe the new retirement as having the freedom to do what you want to do when you want."*

SAY … The purpose of investing is to achieve financial freedom. You want to be able to live the lifestyle you want, without worrying about paying bills and making ends meet. Financial freedom means you'll be able to retire and spend time on things you want to do. To become financially free, it's important to get your money starting to grow for you, instead of having to work for every penny.

Here are some definitions having to do with investments and financial freedom.

Investing

Student Guide, page 70

EXPLAIN that cash flow is the difference between the available money at the beginning and end of an accounting period.

- **POSITIVE** cash flow: Cash inflow is larger than cash outflow.
- **NEGATIVE** cash flow: Cash outflow is larger than cash inflow.
- **BREAK EVEN** cash flow: Cash inflow and outflow are the same.

INSTRUCT students to complete the **Cash Flow Activity** (*Student Guide*, page 70).

Cash Flow Activity

You receive a **$1,500** check from a tenant on a rental property that you own. That month, your mortgage, insurance, taxes, and other property-related expenses come to **$1,300**. Complete the following statement:

In the example above, the rental property provides the owner a _________[*type*] cash flow of $_____ [*amount*] per month.

SAY … In the example, the rental property provides the owner *positive* [*type*] cash flow of *$200* [*amount*] per month.

INFORM students that the next term is one with which they are already familiar; however, it will be mentioned a few more times because it is an important term and calculation when considering retirement.

Investing (Continued)

Student Guide, page 71

EXPLAIN that net worth equals assets minus liabilities.

SAY … An asset is any item of economic value owned by a person or corporation. Examples of *tangible* assets include gold, real estate, and stocks.

Ask participants what sort of tangible assets they have, and discuss the difference between individual examples. Discuss whether there are any common assets across the board.

SAY … Examples of intangible assets include copyrights, trademarks, and brand recognition.

ASK if intangible assets are more or less common than tangible assets, and why. Then ask participants if they have any intangible assets.

DISCUSS how intangible assets are more or less secure than tangible assets.

SAY … Return on Investment (ROI) is a performance measure that helps investors compare the return offered by one investment to returns on other investments. ROI is calculated by dividing an investment's financial yield by its cost. The result is expressed as a percentage or ratio: financial gain divided by cost of investment.

REVIEW the example illustrated (*Student Guide*, page 72).

Assume you purchased **$1,000** worth of stock. After a year, the stock was valued at **$1,100**. You

Financial gain	$100	
Cost of Investment	$1,000	= 10% ROI

earned **$100** from the investment and your ROI is **10%** ($100/$1,000 = 10%).

ADVISE students that these are great tools to use to help set goals toward retirement and achieving financial freedom. When people reach a stage where their cash flow can support their lifestyle, or when they have a large enough **net worth** that they can draw money from that investment for a lifetime, these are good indicators of financial freedom.

INSTRUCT students to complete the **Investing Activity** on page 71 of their student guides.

Investing Activity

What is cash flow?

____

____

What is net worth?

____

____

What does ROI stand for and what does it mean?

____

____

What does financial freedom mean to you?

____

____

Slide 55: Good Debt vs. Bad Debt

Student Guide, page 72

INSTRUCT students to complete their own definition of good and bad debt in the **Warm-Up** exercise (*Student Guide,* page 72). When they're finished, ask for volunteers to share their definitions, and/or share this definition, and get their thoughts.

Good debt is a financial tool that can help you achieve financial freedom.
Bad debt moves you farther away from financial freedom.

SAY … **GOOD DEBT** is debt that helps people get into a better financial situation. For example, if the value of an asset (property, investment, personal skill level) increases, or if the asset increases your cash flow (income), that's a good debt.

BAD DEBT is incurred when people make unnecessary purchases, with no potential to improve their financial situation.

FACILITATE a discussion focused on good debt vs. bad debt, to warm them up for further explanation. Talk about the importance of using credit to establish a positive financial reputation. A good reputation, in turn, helps you qualify for preferred loans at lower interest rates.

EXPLAIN that, in order to establish a positive credit report and financial reputation, it is inevitable that they will take out some debt during their lifetimes.

SAY … To build a positive credit history, it's important to strive to obtain good debt rather than bad debt.

REMIND the students what they brought up as examples of "good" and "bad" debts during prior discussion in the credit and debt section.

SAY … Any debt, as a whole, is not good. However, there are some types of debt that are considered "good" because they hold investment value. **ANY** type of debt — good or bad — increases your risk.

EXPLAIN that acquiring debt on investments can help them get a higher return on investment – that is, they have the chance to make more money. However, debt on investments also carries greater risk.

Credit Myths

Student Guide, page 72

- More income means a better credit score – credit represents your ability to pay your bills on time, not how wealthy you are.
- A cash-only money management system will help your credit score – In order to have a good credit score, you actually need to use credit responsibly.
- Closing down credit card accounts improves your credit score – This can be harmful if you carry too much of a balance on other credit cards.
- I don't need to check my credit report if all my bills are paid – Your credit report can contain erroneous information on it, from as simple as incorrect dates to fraudulent accounts.
- Bad credit marks are removed after seven years – some information does, but some information, like a Chapter 7 bankruptcy, will stay for 10 years.

Good Debt vs. Bad Debt (*Cont.*)

Student Guide, page 73-74

EXPLAIN that some bad debt is unavoidable but it's important to identify the situation and determine which type of debt is the best choice if cash is not an option. Talk about the differences between bad debt and good debt, and discuss why each type of debt is considered "bad" or "good."

REFER the students to the **Good Debt/Bad Debt Activity** on *Student Guide,* page 74, and facilitate a discussion about good debt vs. bad debt.

GOOD DEBT	BAD DEBT

INVESTMENT LOANS (margin accounts) For investment experts with high-level knowledge and a trusted team of advisors, investment loans can help gain leverage to earn a higher ROI.

LOANS FOR INCOME-PRODUCING REAL ESTATE. Real estate loans are considered good debt because rent income helps pay down your loan and you may earn income. If you purchased in the right area at the right time, the property can increase in value.

BUSINESS LOANS. For entrepreneurs looking to expand and grow their businesses, taking on a business loan may help.

EDUCATIONAL LOANS. Student loans and other investments that finance one's education can be good debt depending on one's planning. Since individuals with degrees tend to make more money (typically around $500,000 more over a lifetime) than those without degrees, education can be considered a good investment. However, student loans are bad debt if you drop out before finishing your degree, or if you choose an expensive school to study a profession that doesn't pay well. It's important to minimize student loan debt to avoid the stress associated with paying it back. Typically no interest is accrued and no loan payments are required while the student stays in college.

HOME LOANS. (for a property you live in) A home loan may be considered either good or bad debt depending on your investment strategy. Purchasing a home may be a good investment because, in many locations, the value can increase over time. But at certain economic times and in other locations, home prices might decline over time; then the loan becomes a bad debt that causes financial strain.

CREDIT CARDS. Essentially, any type of credit card is considered bad debt. Credit cards carry high interest rates, finance charges, and other fees. Retail stores, banks, and other companies offer credit cards to consumers. A credit card usually is bad debt regardless of who issues the card. However, a credit card used wisely can be good debt. If you pay the balance in full every month, you'll help build your credit score and you won't incur any interest charges.

PESONAL LOANS. Personal loans are cash loans from a bank or lending company. Personal loans are not a wise investment. Like credit cards, they carry high interest rates. Even when you think you need fast access to cash, this type of loan is not your best choice.

PAYDAY LOANS . Payday loans are similar to personal loans, however, in most cases you guarantee to pay it off with your next paycheck. Therefore the amount lent is usually limited to the amount of your paychecks. Payday loans carry incredibly high interest rates and the lender will deduct the full amount of the loan—plus the interest—from your next paycheck. It's easy to get into a hole that's very hard to climb out of.

CAR LOANS. Since cars decline in value and offer no income, a car loan classifies as bad debt. However, in today's age you often need a car to earn income; then it might classify as good debt. To help ensure that your car purchase leans toward the good debt side, keep these tips in mind:

- Purchase used cars (new cars lose up to 30% of their value immediately)
- Shop for a good deal
- Minimize unnecessary extras
- Shop for the best car loan

HELP students complete the **Good Debt/Bad Debt Activity** (*Student Guide*, page 74) to identify whether each type of debt is good or bad. Remind them to state why they choose each answer. **This can be a group activity.**

DISCUSS their answers in class, spending extra time on the following example:

George is short on cash until payday. His car broke down and will cost $1,500 to fix. He needs the car to get to work. He has been saving for about a year and has $1,000 in savings. He wants to use his credit card so he won't deplete his savings account.

☐ Yes, it's good debt ☐ No, it's bad debt

Because ____

____

____

Compounding Interest

Student Guide, page 75

Let students know that compounding interest can work in their favor, no matter their age. Encourage attendees who are parents to share the lesson on compounding interest with their children.

EXPLAIN that compounding interest allows money to grow. The younger a person starts, the larger the money can grow.

INSTRUCT students take out their calculators and go through the following example. Explain that you will use a 10% return for the calculation – to make the math easier. But this is NOT a guaranteed rate they can expect to receive.

SAY … If you invest $10,000 and earn a return of 10% per year, at the end of one year you will have made $1,000.

DEMONSTRATE how to do this on a calculator: **10,000 * .10 = 1,000**.

SAY ... Now, if you want to calculate how much you have in your account, multiply $10,000 by 1.1 (110%), and you'll see the total is **$11,000**.

Now calculate how much you will have if you earn 10% a year off your $10,000 investment for 15 years. Round to the nearest dollar.

The answer is **$41,772**.

This is the beginning of getting ready to invest. Understanding the principle of compounding interest will help you when you begin investing later.

EXPLAIN that compound interest is powerful because you earn interest on the money you initially saved or invested; then as you gain interest, that money earns interest as well.

SAY ... It's important to understand a simple way to calculate your potential investment returns. This will help you set realistic goals and do quick calculations when evaluating investments.

Slide 56: Rule of 72

Student Guide, page 76

TEACH participants this simple formula to figure out when their money will double.

The **Rule of 72** says that if you divide the interest rate you're getting on an investment by 72, the answer tells you how many years it will take for that money to double. This principle helps illustrate that the earlier you start saving for retirement, the better the chances that your money will double.

WRITE this example on the board:

If you have **$10,000** in savings and are earning a **10%** interest rate,
your money will double in **7.2 years**.

SAY ... How much money would you have in 49 years?

Give them a few minutes to work out their answers.

SAY … The answer is over **$1,000,000**. So if you had invested just **$10,000** at age 16 – and didn't touch it until you retired – you could be a millionaire at retirement.

EXPLAIN that if you simply put your money in the bank, you'll earn a much lower interest rate – let's say 5%. Again, point out that this is a very high savings interest rate and is used just to make the math easier.

SAY … Using **The Rule of 72**, how long will it take to double your **$10,000**?
The right answer is **14 years**.

How much would you have in **49 years**?
The answer is **$109,000.**

If you put **$10,000** in your piggy bank at **0%** interest, how much will you have when you retire?
The answer is **$10,000**

BUT … if there was **3%** inflation per year, that same **$10,000** would only buy **$2,350** worth of goods.

DIRECT students to review the chart on *Student Guide* page 66.. Highlight the importance of earning a return that exceeds inflation.

FACILITATE discussion about how inflation has affected daily life. Tell the students you have a business proposition for them. You need someone to work for you for one month. Hold up a penny.

SAY … On the first day you work for me, you will earn one penny. I will double your salary each day for the entire 30 days that you work for me. Any takers?

Hand a penny to anyone who raises their hand.

- Ask the remaining students if they will work for you for one month if you pay them $100,000. Hand out fake $100,000 bills to anyone who raises their hand.

INSTRUCT students to go to the blank calendar on page 76 (*Student Guide*).

- Tell them to compute how much money will be earned at the end of the month by the students who took the penny offer.
- Make this activity fun, and just give them 60 seconds to calculate.

Day 1	$.01	Day 11	$10.24	Day 21	$10,485.76
Day 2	$.02	Day 12	$20.48	Day 22	$20,971.52
Day 3	$.04	Day 13	$20.48	Day 23	$41,943.04
Day 4	$.08	Day 14	$40.96	Day 24	$83,886.08
Day 5	$.16	Day 15	$81.92	Day 25	$167,772.16
Day 6	$.32	Day 16	$163.84	Day 26	$335,544.32
Day 7	$.64	Day 17	$327.68	Day 27	$671,088.64
Day 8	$1.28	Day 18	$655.36	Day 28	$1,342,177.28
Day 9	$2.56	Day 19	$1,310.72	Day 29	$2,684,354.56
Day 10	$5.12	Day 20	$5,242.88	Day 30	$5,368,709.12

TALK to the students about the game and what they learned. Ask if they would have made as much if their pennies only doubled for 7 days, 14 days, and 21 days. Relate this game to the power of starting to save for retirement at a young age.

REMIND participants that compound interest is so powerful because you not only earn interest on the money you initially save or invest but, as you build interest, that money, too, earns interest.

INSTRUCT students to answer the questions in the Preparation section (*Student Guide,* page 77).

Rate your current investment confidence level : ❶ ❷ ❸ ❹ ❺ ❻ ❼ ❽ ❾ ❿
Low High

Do you want to invest within the next few years? ☐ Yes ☐ No

SAY … The reduction and/or elimination of pension and SSI benefits now make it critical that you become educated investors.

REMIND them that investing is basically buying assets that they think will go up in value. Assets are things like real estate, stocks, gold, or a business. Assets do not always increase in value, so any time you invest, you risk losing some or all of your money.

SAY … Take the time to become an educated investor and get your money working for you.
Talk about Ponzi schemes and Bernie Madoff.

EXPLAIN that a Ponzi scheme is an investment fraud where people invest and their return on the investment is paid from the money of new investors. So people who invest in 2012 are paid their return using the investment money from people who invest after them. Talk about the fraud committed by top investment banking firms and Enron.

SAY … A top investment banking firm advised customers to invest in deals the firm was betting against.
Enron encouraged employees to invest their retirement money within the company.

DISCUSS how these frauds affected different types of investors:

- those who lost their life savings;
- those who lost a significant amount of money; and
- those who only lost a small portion of their investment.

Risk Management

Student Guide, page 79

SAY … Before making any investment, it is important to know your risk.

DIRECT students to complete the **How Much Can I Lose activity** (*Student Guide*, page 79).

How Much Can I Lose?

You buy a piece of real estate for $200,000 and make a $20,000 deposit.
How much can you lose?

Check One: ☐ Nothing ☐ Your investment of $20,000
☐More than your original investment.

You invest $3,000 to purchase 100 shares of a stock valued at $30 a share.
How much can you lose?

Check One: ☐ Nothing ☐ Your investment of $3,000 plus any trading fees
☐More than your original investment and trading fees.

Slide 57: Types of Risk

Student Guide, page 79-80

REVIEW the various types of investment risks.

- **INFLATION RISK .** The value of an asset or income decreases due to the reduced value of the currency. The purchasing power of the investment return declines.
- **LIQUIDITY RISK.** This risk is commonly associated with real estate and refers to the inability to convert an asset to cash. With stocks that have a high trading volume, typically your liquidity risk is low – with the exception of when there is a significant market correction.
- **INTEREST RATE RISK.** When interest rates rise, the value of a fixed-rate investment will decline in value.
- **BUSINESS RISK.** The potential for a company in which you have invested (in a stock or bond) to go out of business, become bankrupt, or be unable to pay back their bond obligations. Enron, Blockbuster, and Wicks Furniture are a few examples of companies that

are now out of business. Diversification (holding a variety of investments) helps minimize your business risk losses.

- **OPPORTUNITY RISK.** When you're presented with a better investment option than the one to which you've committed your money, that's called opportunity risk. Because you're already tied up in a project, you cannot act on the new opportunity and you potentially lose profits.
- **CREDIT RISK.** Credit risk is a specific risk for bondholders where the bond issuer cannot make interest or principal payments.
- **MARKET RISK** (aka Systematic Risk). The uncertainty and movement of financial markets is termed market risk. This type of risk affects all securities in the same asset class in a similar manner. Changes in interest rates, tax base, and other factors all affect your potential return on investment. Some events that can increase your market risk include: natural disasters, major policy changes, and events that can impact the overall market (like the collapse of Bear Sterns).
- **REINVESTMENT RISK.** This risk mainly applies to those bondholders whose bonds are coming due who are seeking a bond investment with equal or greater interest and the same amount of risk. If they're unsuccessful, their income can be reduced or they may have to invest in riskier bonds.
- **POLITICAL RISK.** Government action that might change the value of the investment is a risk that must be considered.

Slide 58: Risk and Potential

Student Guide, page 80

SAY … **Risk capital** is money you can afford to lose without encountering dangerous financial circumstances.

- You should only invest risk capital.
- You should gain knowledge about each investment type you are considering.
- You should have a team of trusted advisors and mentors at your disposal.

EXPLAIN the importance of creating an overall investment plan and determining how each investment you consider fits into your plan. Tell them to conduct due diligence research on each specific investment they consider.

SAY … Due diligence means educating yourself on the investment you're researching. You need to do your homework before committing your hard-earned money. Determine the risk and potential reward. Every investment carries a certain amount of risk and reward.

Ideally, you want to earn the highest return (reward) while taking the least amount of risk.

DISCUSS the need to have an exit plan in place in case the investment doesn't go as planned.

TRANSITION

SAY … There is another type of risk people often take that gets them into trouble: taking advice from the wrong people.

Slide 59-60: Trusted Advisors

SAY … In this section, you'll learn about trusted financial/business advisors. You'll learn pertinent skills to identify reputable advisors while still making sound financial decisions. At the end of the lesson, you'll be able to answer the following questions:

- What is a trusted advisor?
- Why is it important to have trusted advisors in business?
- What are three things you should ask a potential advisor?

Building a Team

Student Guide, page 81-83

REFER students to the **Warm-up** exercise (*Student Guide,* page 81) and have them write the answer to the question: "What is a trusted advisor?" Discuss their answers and the importance of knowing what "trusted advisor" means.

SAY … Over the course of your adult lives, you will have to interact with professionals who will help you with your financial endeavors.

- It's important to work with trusted, reputable, and established professionals within any given field.
- Many financial planners, investment bankers, realtors, loan officers, and other financial professionals often work on commission. That means they may not always give the best advice.

EXPLAIN that, over the years, participants will build a financial team that includes the following professionals:

- College planner – if you or your child are going to college, this is a must.
- Tax planner – the tax code covers more than 15,000 pages.
  Either learn them all, or find a professional to do your taxes.
- Attorney
- Financial mentor
- Financial coach, advisor, or professional
- Insurance agent
- Realtor and mortgage professional (f you plan to purchase a home).

ASK willing participants to discuss if they already have built or are building a winning team. Use the following questions as discussion points:

- What were some of the choices you made to build your team?
- How did this team help you determine your financial decisions?
- Did you take advice from friends or family?
  Why or why not?

SAY… The key to building relationships is to reach out prior to needing help. That way, you'll find people who are willing to build a relationship.

- If you plan to buy a home in a few years, you may want to start early to find a realtor.
- When it comes to financial decisions, it's best never to be rushed. Early planning is a good idea.
- Finding someone who is willing to work with you now and help you prepare is a sign of a trusted advisor.

Trusted Advisors (Continued)

REMIND students that a trusted financial advisor is different than a mentor.

- A **TRUSTED ADVISOR** is someone who works in a field (real estate, investments, law, etc.) who will help you with your needs in that area.
- A **MENTOR** is a person with years of experience who can help you in your potential career field. Mentors are not selling you anything. They are your trusted friends who give you advice on a wide range of topics from life to business.

REVIEW the list of basic questions participants should ask each potential member of their team:

- How many years have you been in your respective field?
- What are your fees and how do you get paid?
- What are your credentials?
- What professional boards do you belong to?
- Have you ever had any disciplinary action?
- What is your past experience?
- What other services do you offer?

EXPLAIN that students should be sure to choose people who not only are educated, but whom the students like on a personal level.

SAY … You will develop long-term relationships with your advisors.

- Choose people you enjoy being around.
- If your financial planner, realtor, lawyer, or tax professional is a close, trusted friend who has been successfully managing and investing money for many years, that person may be an excellent resource for you.
- If you do not have such a reliable, close friend, interview many potential brokers/ financial planners.

EXPLAIN that while it's important to have a great team on their side, they shouldn't lean on their team like a crutch.

SAY … Ultimately, your financial decisions are your own. The advisor just informs you about all the options surrounding the decision.

REMIND students how important it is to interview advisors before choosing to work with them.

Trusted Advisors (Scenarios)

Student Guide, page 84

REVIEW with the class each of the scenarios presented in the Investment Protection Activity (*Student Guide*, page 86).

REMIND students how important it is to interview advisors before choosing to work with them.

SAY … It's important to remember that financial professionals and other service providers are paid on commission. That means they only get paid if you invest.

- You want to find one who will give you the best possible advice – not someone just looking after his/her own interests.
- Certain financial professionals are experts in a particular service, but not in others.
- Don't rely entirely on one financial advisor.
- Ensure that your financial experts are in agreement about your investments.

SAY … If you can't trust one of the largest investment banking firms, who can you trust?
ANSWER: It's important to have enough knowledge to make your own investment decisions. In the financial industry, there are too many "what ifs."

INSTRUCT students to answer the following scenarios (*Student Guide,* page 84):

Investment Protection Activity

Consider the following scenarios and write down your answers to the questions.

Scenario 1:
A mortgage broker recommends to a family that makes $2,500 a month that they get a loan at payments of $1,000 per month. What he doesn't tell the family is that, in the second year, the payments increase to $1,500; in the third year payments will be $2,000; and by the fifth year payments will be $3,000 per month. This escalated payment schedule is mentioned in the 40 pages of legal disclaimers the family received, but they didn't read all those pages because the documents were confusing.

How could this family have protected themselves from getting a mortgage that was bad for their situation? ____.

____

____

____

____

Scenario 2:

In 2008, one of the largest investment banking firms in the country was recommending that people purchase an investment while secretly betting that the investment would lose money. As a result, the investment firm made millions while the people lost millions.

How could the people who became prey to this scandal have protected themselves?

____

____

____

____

____

FACILITATE discussion around why some firms do these types of things. Now have students write down their thoughts about the two scenarios covered, as well as ideas on how they might protect themselves. Have students complete the Essential Questions in the *Student Guide*, and discuss their answers.

Investments (Preparation)

Student Guide, page 85-86

SAY: The most important thing you need before you invest is knowledge.

INSTRUCT students to complete the **Investment Preparation Checklist** (*Student Guide*, pages 85-86) by circling the number representing their current financial knowledge level and underlining the number representing the knowledge level to which they plan to improve their personal financial knowledge within one year.

Knowledge

Circle the number that represents your current financial knowledge level. Then underline the number that represents the knowledge level to which you plan to improve your personal financial knowledge within one year.

❶ ❷ ❸ ❹ ❺ ❻ ❼ ❽ ❾ ❿

Low High

SAY … The next most important step is building a trusted team.

ASK students why trust is so important, and have them check off each team member they already have in place or will add within the next year.

Trusted Team

Place a check mark next to those trusted team members you will have in place within one year.

- ☐ Tax planner
- ☐ College planner
- ☐ Attorney
- ☐ Financial mentors
- ☐ Financial advisors
- ☐ Insurance agent
- ☐ Realtor or mortgage professional

SAY … Before you consider investing, be sure to have 6 to 24 months of emergency funds put away.

EXPLAIN that a 6-24 month emergency fund means that if they suddenly have no income, they could still pay their obligations for that many months. The amount they need to save varies, depending on their skill level and ability to find new employment if they lose their current job.

INSTRUCT students to complete the following statements in their *Student Guide.*

Emergency Savings

Depending on your qualification and ability to get a job, a 6- to 24-month emergency fund will prepare you for an unexpected event or job loss.

I currently have ______ months in emergency savings.
Within one year I will have ______ months of emergency money saved.
I have a working budget in place. ☐
(Place a check mark here if you completed the last activity.)

REMIND students of the definition of risk capital – money that they can afford to lose without being in dangerous financial circumstances. Have them complete the next portion of the activity.

Risk Capital

Depending on your qualification and ability to get a job, a 6- to 24-month emergency fund will prepare you for an unexpected event or job loss.

I currently have ______ months in emergency savings.
Within one year I will have ______ months of emergency money saved.
I have a working budget in place. ☐
(Place a check mark here if you completed the last activity.)

SAY … Have minimal bad debt and have a working budget in place that allows you to save money each month.

Minimal Bad Debt

Many people pay 20% or higher credit card interest rates. Those people earn less on their investments.

If your investments are earning 6% and you're paying 24% interest on credit card debt, what action should you explore? Why? ____
____

If you owed $20,000 on a credit card at a 0% interest rate and you received $20,000, would it be better to pay off your credit card or to invest that money? Why? ______________________________
____

DISCUSS these questions with the students. Be sure to point out the risk involved in the second example when you invest with borrowed money.

EXPLAIN the importance of creating an overall investment plan and determining how each investment you consider fits into that plan.

Plan

I will have solid ideas on my investment and retirement plan by the end of this coursework.

Check here ☐ if over the next 12 months you will take time to finalize your plan, even if you don't yet have enough money saved to risk.

DISCUSS why it's important to have an exit plan in place in a case an investment doesn't go as planned. Tell them they should conduct due diligence research on each specific investment they consider.

SAY … Due diligence means educating yourself on the investment you're researching and doing your homework before committing your hard-earned money.

Due Diligence

Check here ☐ if you will perform due diligence on the specific investments or companies in which you consider investing.

Unit 7: PLANNING TO INVEST

SLIDE 61: Types of Investments

Student Guide, page 88

SAY … In this section, we will briefly go over some different investment options that are available. Each investment offers different qualities that will help you determine if it fits your investing strategy.

With every investment you choose to make, there will be less money for other investments. This is called "opportunity cost."

EXPLAIN that this is relevant to investing because every time someone invests, they may be passing up a more lucrative opportunity.

SAY … To make the best decision with the lowest opportunity cost, it is important to be well informed about all the types of investments there are. This way, you are able to make informed decisions and minimize opportunity costs.

REVIEW the various types of investment options with the students.

▶ **SAVINGS ACCOUNT**

- **Returns** are low, typically below inflation. In 2012 most savings rates were below 1%.
- **Benefits** include ability to access money quickly and safety of principal.
- **Risks:** Savings accounts often offer returns that are lower than inflation rates. There is low risk of capital loss because banks are insured by the FDIC, credit unions by the NCAU.
- **Liquidity:** You can access money instantly; however with larger amounts, there may be some delay. Cost to access money is low.

▶ **CERTIFICATE OF DEPOSIT (CD)**

Note: Money Market accounts have similar qualities, but are typically shorter in nature, often with maturity dates of one year or less.

- **Returns** are low, but often higher than savings accounts. The more money you have to invest in CDs, the larger return you can earn. In 2012, CD rates for one year were about 1%.
- **Benefits** include safety of principal and higher return than typical savings accounts.
- **Risks:** There is low risk of capital loss because CDs are insured by FDIC (banks) or NCAU (credit unions). The longer-term CD is chosen for higher risk that it will earn a return less than inflation.
- **Liquidity:** CDs vary on their liquidity. There may be a cost to access money. There is minimal or no cost as long as you wait until the maturity date. If you sell before the CD maturity date, you will likely pay penalties.

ANNUITY

Note: Investors can opt to set up an annuity to provide income for a specific period of time, which can end through their lifetime.

- **Returns** vary. Income is dependent on your investment, length of payments and performance, and is also dependent on the type of annuity chosen. Two common types include a *fixed* annuity, which provides a guaranteed payout, or a *variable* annuity, where income is determined by the performance of the annuity's underlying investments.
- **Benefits** include offer of a future income stream; some annuities offer protection of capital.
- **Risks** vary with the annuity; however common risks include lack of liquidity and inflation risk. There is also a smaller risk of loss of capital investment if the insurance company that insures the annuity fails.
- **Liquidity:** Most annuities allow for some type of distribution penalty-free; however, you likely won't have access to all your money immediately without penalties.

INDIVIDUAL STOCKS

- **Returns** vary, depending on market conditions and investment strategies.
- **Benefits:** Stocks have the potential to earn returns that exceed inflation.
- **Risks:** You can lose 100% of your money.
- **Liquidity:** You can sell stocks any time the market is open. Many stocks can be traded after hours.

MUTUAL FUNDS

- **Returns** vary greatly upon type of mutual fund investment. Types of mutual fund investments are described in the **Stock Market** lesson in this section.
- **Benefits** include offering a wide selection of mutual funds to choose from to meet a variety of investment goals. The returns that one can expect are tied to amount of risk one is willing to take.
- **Risks:** Returns vary greatly depending on the type of mutual fund in which you invest; however, with some funds, you can lose your entire capital investment.
- **Liquidity:** Most mutual funds are liquid and, like shares, can be sold the same or next day at Net Asset Value (NAV). There are different types of mutual fund classes that you can choose. Some penalize you for early withdrawal.

COMMODITIES

- **Returns** vary greatly.
- **Benefits:** Commodities may offer a hedge against inflation.
- **Risks:** There is a risk of losing some or all of your money.
- **Liquidity:** In most markets, investors are able to access money quickly.

EXCHANGE TRADED FUND (ETF)

- **Returns** vary, depending on type of ETF chosen.

- **Benefits:** ETFs provide broad market exposure and typically lower operating expenses than a mutual fund. ETFs can be bought and sold when the market is open, in comparison to mutual funds which only allow sales at the close of the market.
- **Risks:** You can lose some or all of your money.
- **Liquidity:** With most ETFs, investors have a high degree of liquidity.

EXPLAIN how if they purchase one SPY ETF share, they can own a fraction of all 500 stocks on the S&P 500. They can choose sector ETFs like ones that track the financial markets or technology markets, for example. The trading fees on ETFs are typically lower than on mutual funds, depending on how many shares are purchased.

▶ BONDS

- **Returns:** There are a wide variety of bonds available. Bonds have a price and yield, however, that is proportional to their risk (see chart). Returns on *municipal* bonds (issued by cities, counties, etc.) vary depending on safety of investment, but can range from 2% to 5%. Returns on *corporate* bonds vary depending on risk of investment and can range from 4% to 20% for very high-risk bonds (also known as "junk bonds").
- **Benefits:** Bonds are typically less volatile than stocks, and are often used by investors to stabilize the value of a portfolio. Income is received at regular intervals, and there may be tax advantages with some bonds.
- **Risk** varies, depending on the bond. If you choose a high-risk bond and the company that issued the debt goes bankrupt, you could lose your entire investment. This is known as *business* risk. There is also *inflation* risk. Bond prices have an inverse relationship to interest rates: when one rises, the other falls. So if you sell before the bond matures, you could lose money.
- **Liquidity:** Typically, bonds are not as liquid as stock investments, and if a bond is downgraded or in default, there could be trouble getting out of the investment.

DISCUSS the Standard & Poor's recent US Treasury debt rating change from AAA to AA.

▶ REAL ESTATE

- **Benefits:** There are several benefits associated with real estate: appreciation (property goes up in value); cash flow (rental and income-producing properties); and potential tax benefits and leverage.
- **Risks:** Depreciation, housing prices falling, and the inability to sell are all risks associated with real estate. Most people purchase real estate with a loan. If at any time you lose a job or have other financial hardships, you may not be able to pay the loan back. In cases like this, you may have to "short sell" the home (sell it for less than the house is worth) or have your home foreclosed (the lender takes back the home). In both cases, you could lose more money than you invested in the home, plus it would negatively impact your credit rating.
- **Liquidity:** In good real estate markets, you can sell within a few months. In bad real estate markets, it may take years to sell at a discount. Cost of sale is about 8% of the home sales price.

Opportunity Cost

Student Guide, page 91

Have the students complete the scenarios in the **Opportunity Cost Activity** (*Student Guide*, page 91). In each scenario, they are to identify if they would take the risk, what the opportunity cost is, and the type of investment. Once the activity is complete, discuss it as a class. Talk with the students about what options are best, risky, and safe.

Opportunity Cost Activity

Scenario 1:

You are looking to purchase a rental property in 6 months. You have $25,000 in your checking account that is not earning any interest. You would like to see the $25,000 working for you. What investment(s) would you consider with this scenario? ____________________________

ANSWER: Short-term investments that have a very low risk of capital loss.

Scenario 2:

You are looking for an income stream when you retire. You have calculated out exactly how much you need to live and don't have extra money to make riskier investments. Which investment sounds right for you in this situation?________ ______________________________

ANSWER: A longer-term investment that offers some capital protection would be appropriate for this type of situation.

Scenario 3:

You are young and willing to take educated investment risks that earn high returns. What investment options may be best for you? ______________ ______________________________

ANSWER: Higher-risk investments in the stock market, commodity market, or real estate could be an option for this type of investor.

Scenario 4:

You need to access your money in a month. Where could you put your money? ____________

ANSWER: Low-risk, low-return investments, maybe a savings account or short-term CD.

Scenario 5:

You want to save money to eventually purchase a home. You plan to buy a home within 5 years, but will do so sooner if your money earns good returns. What are the types of investments to consider in this situation? ____

ANSWER: This type of person may benefit from a diversified portfolio that combines different risk and return levels.

Slide 62: The Stock Market

Student Guide, page 92

SAY … Let's talk about the stock market.
Who's heard of the stock market? That is something you should learn more about.
Did you know that when you own a stock, you own part of the company?

REMIND students that, as they learned in the last section, there are many different types of financial markets: stock, bond, option, and commodities markets are just a few.

- Tell them that the stock market is one piece of the overall US financial market.
- The stock market trades the stock of companies and other financial securities. A stock is genuine partial ownership in a company. If you own 10,000 shares of a company with 1,000,000 outstanding shares, you would own 1% of that company.
- The stocks of companies are listed and traded on stock exchanges. The stock of companies in the United States is listed on several different exchanges, for example, the New York Stock Exchange (NYSE) and the NASDAQ

EXPLAIN that when trading, stocks are bought and sold by bidding.

- When the **BID** price (the price at which a buyer is willing to buy) and the **ASK** price (the price at which a seller is willing to sell) match, a sale takes place.
- This means that prices can fluctuate day to day, and the worth of the stock you own can change, depending on demand for the company's stock.

PLAY THE AUCTION GAME so the students can experience how this works.

- Hold up an item in class and offer it for sale.
- Have the class bid on the item.
- Once you have the high bidder, tell the students about a problem with the item they just bought.
- Let the students bid again on this item, now that they know about the defect.
- Wrap up the game by letting students know that the stock market moves based on prices at which people are offering to purchase a stock.

Slide 63: Basic Principles of the Stock Market

Student Guide, page 93

SAY … Before you buy or sell one single share of stock, you'll want to understand the basic principles of the stock market.

SUPPLY AND DEMAND

- This is a fundamental rule of economics. What you need to know is that the stock market runs according to this rule.
  SUPPLY is the quantity of stock shares available for sale.
  DEMAND is the number of stock shares investors are willing to purchase at a given price.
- If supply is greater than demand, in the case of stocks, then the price will naturally fall. If supply is less than demand, the price will go up.
- This basically explains why stocks prices go up and down, but the reason for greater interest (or lack of interest) in a stock is more related to the company's performance, or gossip about the company's future, and technical factors.

RISK AND RETURN

- Just like supply and demand, risk and return have a correlative relationship, or at least they should if you're getting a good deal.
  - If you're investing in something with low risk, then you probably can't expect high returns.
  - The opposite is true of high-risk ventures, where you would expect higher returns in exchange for risking your money.
- For instance, if you invest your money in a brand-new company that does not have a proven track record, that is a high-risk investment. The company could easily go out of business, and you would lose everything. On the other hand, it could be successful, and you would make a lot of money.
- Once you have established a solid savings account and have a lot of knowledge on how to choose individual stocks, it's okay to allocate a small portion of your portfolio to riskier investments, but not before!

OWNERSHIP

- As amazing as it sounds, owning a stock makes you a co-owner of the company. With ownership, you gain a voice in the company's business. You can vote at meetings and take a real interest in the inner workings of the company you invest in.

SAY … There is an important difference, though: "limited liability." If something bad happens in your company, they can't haul you off to prison for it.

EXPLAIN how different people invest in the market.

- **DAY TRADERS** usually try to profit from short-term price conditions, so they like to connect with fast, impulsive sellers and buyers. These traders can often place several trades to several hundred trades per day.
- **SHORT-TERM INVESTORS** are keen to buy a stock.
  - Then if the stock moves up, they get their money (and profit) back out quickly.
  - If the stock moves down, they cut their losses and sell.

  Those short-term profits that traders and short-term investors generate can be tempting, but unless you're extremely experienced, it's wiser to adopt a long-term mentality of buying and holding until the perfect time to sell.
- **LONG-TERM INVESTORS** are often referred to as "buy and hold" investors. They purchase stock in hopes of generating large gains over a period of time.

Investment Diversification

Student Guide, page 96

EXPLAIN that this lesson will help students develop an understanding of what investment diversification is, and the importance of diversifying investments.

INSTRUCT students to complete the question in the **Warm-up** exercise (Student Guide, page 96). "What does diversification mean?" Facilitate a brief discussion around their responses.

SAY … Diversification is defined as spreading investments among many different securities or sectors to reduce the risk of owning any single investment.

EXPLAIN that diversification can be an important step in developing a successful investment formula, and have the students review and complete the **Diversification Activity-Part 1** (*Student Guide*, page 96).

Diversification Activity – Part 1

Person A invests $100,000 of his money in a startup company that many people are thinking will take off.

Person B invests $10,000 of his money in the startup mentioned above; $30,000 in real estate; and the remaining in a few different mutual funds.

If the startup company's stock price skyrockets,
who will make the most? ☐ Person A ☐ Person B

If the startup company fails,
who will lost the most? ☐ Person A ☐ Person B

In what ways can **Person A** generate a positive return on investment? ____________________

In what ways can **Person B** generate a positive return on investment? ____________________

Let students know there are a few types of diversification. Explain what asset classes are. Point out that asset classes include stocks, real estate, bonds, cash, commodities, and other investments.

SAY … This is important to know so that you can manage your risk through diversification.
What would happen if you had all your money in real estate, and the real estate market collapsed?

EXPLAIN that knowing what asset classes are can help us diversify our portfolio and hopefully reduce the risks. Point out that there are two types of diversification, and give examples of each.

- Diversification **BETWEEN** different asset classes; and
- Diversification **WITHIN** an asset class.

INSTRUCT the students complete the **Diversification Activity – Part 2** in their *Student Guide,* page 97 by indicating the correct choice.

All of a family's investments are held in mutual funds. They decide to invest in an individual stock.
Which of the following describes this action?
☐ Diversification **BETWEEN** asset classes ☐ Diversification **WITHIN** an asset class.

A family owns a home and decides to invest in an ETF and some physical gold.
Which of the following describes this action?
☐ Diversification **BETWEEN** asset classes ☐ Diversification **WITHIN** an asset class.

ASK …students to write down how having a diversified portfolio can help them.
ANSWER: Possibility of reduced risks; reduced volatility.

ASK …students to write down the possible drawbacks of having a diversified portfolio.
ANSWER: Possibility of diluted investment returns; maintenance.

Mutual Funds, Index Funds, and Exchange Traded Funds (ETFs)

EXPLAIN that mutual funds, index funds, and ETFs can help some investors diversify their portfolios.

- A **MUTUAL FUND** is a type of managed investment that pools money from many investors to purchase securities that align with the mutual fund's stated investment objectives.
- An **INDEX FUND** is a type of mutual fund whose portfolio is designed to track the components of a market index, and can give investors increased diversification, broad market exposure, and low operating expense.

Share examples of market indexes like the S&P 500, the NASDAQ 100, the Wilshire 5000, the Dow, etc.

- An **ETF (EXCHANGE TRADED FUND)** is a security that tracks a basket of assets like a commodity, sector, index, or other area. It acts similarly to an index fund, but trades like a stock.
  - S&P 500 ETFs are called "Spiders" (SPY), and
  - a Wilshire 5000 ETF is called a "Vipers" (VTI)

REVIEW the following scenario with the class.

Scenario There was an investor who wanted to invest in technology stocks. He had a good idea about which stocks he was interested in, and this is what he found:

Technology stock 1 .... $300 per share
Technology stock 2 .... $50 per share
Technology stock 3 .... $150 per share
Technology stock 4 .... $100 per share

If he wanted to invest in each of these stocks, it would cost him $600 plus trading fees. He also found a mutual fund that owns the exact stocks he was interested in trading. The investor could also choose to purchase the mutual fund.

CLARIFY that mutual funds are investment vehicles that are made up from funds collected from various investors. They are operated by professional money managers whose goal is to successfully fulfill the mutual fund's stated objective.

- Common goals include income or capital gain.
- Read the prospectus to learn more about a mutual fund's stated goal.
- Mutual funds can invest in stocks, bonds, and other assets.

SAY … Net Asset Value (NAV) is a figure that calculates the mutual fund's price at the close of the market. Purchase and sale of mutual funds occur only at the end of the market day. Investors are unable to sell during typical market hours.

COMPARE this to how stocks are traded.

There are thousands of mutual funds, and most fit within a smaller subset of categories. Read the examples below and spend some time explaining the terms that are unlined.

- **AGGRESSIVE GROWTH FUNDS** try to maximize capital gains, may leverage their assets by borrowing money, and may trade in stock options.
- **GROWTH FUNDS** are similar to aggressive growth funds, but usually do not leverage their investments (borrow money) or use stock options.
- **GROWTH-INCOME FUNDS.** The goal is to generate dividend income and growth.
- **INCOME FUNDS.** The main focus is on generating dividend income.
- **INTERNATIONAL FUNDS** hold stock of companies around the world.
- **ASSET ALLOCATION FUNDS** don't just invest in stocks; they also may have bonds, real estate, metals, and money market funds.
- **SECTOR FUNDS** invest in a specific sector of the stock market. For example, a technology fund would buy tech stocks.
- **BOND FUNDS** invest in corporate and government bonds.
- **MONEY MARKET FUNDS** are mutual funds that invest solely in government-insured, short-term instruments.
  EXPLAIN that a "load" is levied on purchase or sale of mutual fund shares.
  Common load types are:
  - **FRONT-END LOAD** — paid when shares are purchased. Class A shares.
  - **BACK-END LOAD** — paid when shares are sold. Class B shares.
  - **LEVEL LOAD/LOW LOAD** — paid annually. Class C shares.
  - **NO-LOAD FUND** — no sales load is paid up front or on the sale; however, fees like exchange fees, account fees, etc., are paid. Class C shares.
- **EXCHANGE TRADED FUNDS (ETSF)** are investment funds that trade like a stock. Investors can invest in a variety of ETFs.
  - Some ETFs track broad range indexes like the S&P 500 (SPY).
    If an investor purchases one SPY ETF share, he can own a fraction of all 500 stocks on the S&P 500.
  - Investors can choose sector ETFs — for example, ones that track the financial markets or technology markets.

SAY … The trading fees on ETFs are typically lower than those on a mutual fund. This is dependent on how many shares are purchased. ETFs trade like a stock, and can be bought or sold.

Slide 64: Dollar Cost Averaging

Student Guide, page 102

Tell the students that they will learn how the theory of compound interest can be applied to their stock market investments.

SAY ... To create a dollar cost averaging plan, there are two key elements:

- Budget the exact amount of money you can invest.
- At set specific intervals —weekly, monthly, or quarterly — invest that money into the same investment.

EXPLAIN to participants that they can increase or decrease their investments in an orderly and planned fashion, and their advisors can set up an automatic withdrawal plan that will automatically transfer money from their checking account.

REFER to the sample plan on the slide to explain how dollar cost averaging works.

SAY ... If you were to invest **$100** per month, you would own **131** shares after one year. Your investment would have increased in value by **$376**. In comparison, if you did not follow a dollar cost averaging plan, and purchased **$1,200** worth of shares at once, in 2013 your return would be **$240**. You would own **120** total shares **($1,200** investment divided by **$10** per share = **120** total shares).

DISCUSS this method of investing and its effectiveness, and ask the students for their thoughts on investing over a one-year period rather than all at once.

INSTRUCT students to complete the Dollar Cost Activity (*Student Guide*, page 100).

Dollar Cost Activity

To create a dollar cost averaging plan, there are two key elements:

1. Budget the exact amount of money you can invest;
2. At set specific intervals — weekly, monthly or quarterly — invest that amount of money into the investment.

What are your thoughts about dollar cost averaging?
____

What benefits do you see in developing a dollar cost averaging plan? _________________________________

Describe a situation where following a dollar cost averaging plan would earn you a lower return than investing a lump sum. ____________________________

A Sample Plan

	Monthly Investment	Cost per Share	Number of Shares Purchased
2013	$100	$10	10
2014	$100	$9	11.1
2015	$100	$8	12.5
2016	$100	$9	11.1
2017	$100	$7	14.2
2018	$100	$6	16.6
2019	$100	$8	12.5
2020	$100	$10	10
2021	$100	$12	8.3
2022	$100	$13	7.7
2023	$100	$11	9.1
2024	$100	$12	8.3
Total	$1,200		131.4

Planning to Invest Review

Student Guide, page 101-103

RECAP the Planning to Invest section.

- You have a basic understanding of investing and why people invest.
- You know some of the risks of investing, and also the opportunity costs.
- You can identify the difference between a good debt and a bad debt.
- You have a plan to build a team of trusted advisors to help you with your investments. However, you also know that ultimately all your investment decisions are your own.
- You have knowledge of the basic principles of the stock market and how the market works.
- You understand how to diversify investments and how diversification lowers risk.
- You have learned the concept of dollar cost averaging and how it can benefit your investment strategy.

INSTRUCT students to complete the **Investment Unit Questions** (*Student Guide,* pages 101 – 103)

Review Questions Activity

1. Being ***financially free*** means ____
   ____

2. Which of the following loans is a ***good debt***?
   a. A loan from a family member.
   b. A loan for something that's likely to go up (appreciate) in value.
   c. A loan for something that's likely to go down (depreciate) in value.

3. Which of the following loans is a ***bad debt***?
   a. A loan from a family member.
   b. A loan for something that's likely to go up (appreciate) in value.
   c. A loan for something that's likely to go down (depreciate) in value.

4. Name five steps to creating a personal financial plan:
   a. _____________________ d. _____________________
   b. _____________________ e. _____________________
   c. _____________________

5. Which of the following are important considerations for building financial freedom?
   a. Cash flow
   b. Net worth
   c. Lifestyle
   d. Location
   e. **All of the above**

6. What are three knowledge basics that help form the proper foundation for your financial plan?
   a. ____
   b. ____
   c. ____

7. Part of having a positive investment outlook involves:
   a. Sticking with your plan even if an investment loses money.
   b. Realizing that your returns will vary based on market conditions.
   c. Giving back to serve the great good.
   d. All of the above.

8. What is investment diversification?
   ____

9. Diversification is a type of
   a. Loss
   b. Risk
   c. Protection.

(Continued on Next page)

Review Activity – Page 2

10. How can an investor benefit from having a diversified portfolio?
    ____

11. Name three of the basic types of investments.
    a. ____
    b. ____
    c. ____

12. Why should I consider investing? ____
    ____

13. What is ***compounding interest***? ____
    ____

14. What benefits do I get by reinvesting my profits? _______________________________________
    ____

15. Becoming a millionaire in the future is completely out of reach for someone my age.
    ☐ True ☐ False

16. A simple savings plan, along with compounding interest, can help me reach my life goals.
    ☐ True ☐ False

16. What benefits do I get by reinvesting my profits? _______________________________________
    ____

17. What is investing? ____

18. Why do people invest? ____
    ____

19. What is a financial risk? ____
    ____

20. What is the number into which you should divide your interest rate to calculate how long it will take to double your investment?
    ☐ 72 ☐ 32 ☐120

(Continued on Next Page)

Review Activity – Page 3

21.What are the three types of income?

a. ____

b. ____

c. ____

22. I don't need to start investing now because I can expect to have a pension and Social Security income when I'm old enough to retire.

☐ True ☐ False

23. Which of the following are important members to include in your team of investment advisors?

a. Knowledgeable friends in your network
b. Financial mentor
c. Tax planner
d. All of the above

24.Networking helps you succeed at investing because

a. It opens up more opportunities for investment options.
b. Your network will introduce you to important celebrities.
c. You need a lot of friends to help you look good in the community.
d. All of the above

25.Your ***cash flow*** is:

a. The total money in your checking and savings accounts.
b. The amount of money your investments bring in regularly.
c. Your total annual salary minus your deductions..

26. In investment terms, what is the definition of a ***trend***?

____

____

TRANSITION

SAY … Now that you have an overview of some of investments and better knowledge about the stock market, we will get into different vehicles that can help you reach your financial goals.

Unit 8: RETIREMENT PLANS

SLIDE 66: Retirement Budget

Ask students if they think the tax rate will increase or decrease over the next ten years. Listen to their responses. Let them know that, in this section, you will be covering the tax code with them.

SAY … In 2010, there were over 70,000 pages to the Tax Code, and tax laws change on a regular basis, so this section will take several days to cover. This section is important because, if you mess up on your taxes, you can go to jail or be fined. So you really need to learn the 70,000 pages before filing your own taxes. How many people are excited to go through this?

LAUGH and **SAY** … I have an alternative for you. Find a tax planner you can trust!

Slide 67: Tax Impact

SAY … In this section, we will be covering some investment options that may help you legally reduce your taxes; however, it's important to have a qualified tax planner so that you can maximize your tax savings.

EXPLAIN that tax planning is a critical part of a long-term financial plan. There are many financial products and strategies that will help the participants retain more of the money they earn. Some investments that may provide tax benefits include 401K plans; IRAs; home ownership; starting a business; and municipal bonds.

SAY … With that in mind, there are two important points to consider:

- Do not base your entire financial plan on the current tax code**.**
- Find a highly qualified tax planner.

The tax code can change at any time, and politicians are regularly trying to adjust the tax code.

NOTE: This would be a good time for a political joke.

SAY … You should locate a tax planner who is available for year-round questions. Before you make any financial decisions, always consult your tax advisor. It is also suggested that you connect your financial team with your tax planner so that your entire team is in the loop on your financial decisions.

EXPLAIN that there are financial products and strategies that allow investors to legally pay less in taxes. Locating a qualified tax planner is essential to your long-term success. A tax planner will help you use tax laws to your advantage and play an instrumental role in your overall financial team.

SAY ... Although each of you will get a qualified tax advisor … right? (Pause to get their commitment), there are some basic things that you should know that are contained within the 70,000 pages of the tax code.

- **INTEREST.** Typically, interest earnings that can be derived from a savings account, bond, CD, and other types of interest-bearing investments are taxed as ordinary income.
- **CAPITAL GAINS.** Assets held less than 12 months are usually taxed as ordinary income, while assets held over 12 months are usually taxed at a 15% federal income tax rate.
- **PRIMARY RESIDENCE.** If you sell your home, you may be able to avoid a capital gains tax.
- **DIVIDENDS.** Currently, income derived through dividend-paying stocks is taxed at 15%; however, many political leaders are calling for this tax to increase.

REMIND participants again that all the tax policies covered in this course can change at any time. That's why it's critical for them to have a trusted and qualified tax planner.

Tax Benefit Options

Student Guide, page 104

EXPLAIN the three types of tax benefits offered through investments.

- **TAX-DEFERRED**. Taxes are paid later with tax-deferred investments. You are able to invest the money that the government would have taxed. This can improve your overall returns. Tax-deferred investments can include 401(k) plans, 403(b) plans, and IRAs. With tax-deferred plans, you will not pay taxes until you withdraw the money. For some, this may provide an extra benefit if the tax rate you pay at retirement is less than your current tax rate.
- **TAX-DEDUCTIBLE.** This feature allows a person to deduct the amount invested from their gross income, lowering a person's overall tax liability. Tax-deductible investments can include 401(k) plans, 403(b) plans, Simplified Employee Pension Plans (SEP), Keogh, and IRAs.
- **TAX-FREE**. Tax-free investments provide returns that are free from federal income tax and, in some cases, state tax. Roth IRAs, municipal bonds, and 529 plans – assuming monies are used for schooling – are all examples of tax-free investments.

Slide 68: Employer-Sponsored Retirement Plans

INFORM participants that employee-sponsored retirement plans can help them reach their retirement goals.

SAY … A "qualified" retirement plan is for employees (and/or their beneficiaries), and is eligible to receive certain tax benefits from the IRS.

EXPLAIN that there are two types of qualified retirement plans:

- ▶ A **DEFINED CONTRIBUTION PLAN** provides an income source that depends upon the employee's contribution and investment performance.
- ▶ A **DEFINED BENEFIT PLAN** provides income at retirement that is typically based on the employee's salary and the number of years they were involved with the plan.

Although not a third type *per se*, there are also hybrid plans that combine features from both of the above-mentioned plans.

- ▶ **DEFINED CONTRIBUTION PLAN**
  - ◆ Benefits are based on the amount contributed by employee and any gain, loss or expense.
  - ◆ Investment monies are tax-deferred.
  - ◆ Participants have their own individual accounts and often have to make the investment decisions. Participants have some control over how much they contribute; however, there are some guidelines they must follow. They also have control over their investment performance.
  - ◆ Participants do not receive a guaranteed retirement benefit. It depends on their contributions and investment choices.
  - ◆ Depending on the plan, the employer may contribute. If an employer contributes, there are often vesting requirements to receive the employer contribution benefits.
  - ◆ It is important to select a beneficiary. If you don't select a beneficiary, the money is payable to your estate when you pass. Your beneficiaries may lose out on benefits.
  - ◆ Mandatory distributions start at age 70½.
- ▶ **DEFINED BENEFIT PLAN**
  - ◆ The employer provides the retirement benefits.
  - ◆ The plan is professionally managed, and may be insured through Pension Benefit Guaranty Corporation (PBGC). PBGC insured pensions for 44 million Americans and benefits for 1.5 million whose pensions failed (according to their website in 2012).
  - ◆ Participants do not select the investments made.
  - ◆ Participants may or may not need to contribute monies, depending on the plan.
  - ◆ These plans provide tax-deferred savings.

- Plan benefits are often calculated based on participant's salary and years of employment.
- Participants typically receive benefits in accordance with their vesting.
- Vesting is the amount of time necessary to receive benefits; vesting requirements differ from plan to plan.
- Participants do not have an individual account in their name, and do not receive monthly income from the plan.
- Some plans offer inflation adjustments.
- Typically, participants cannot receive lump sum payments.
- Benefits are typically not payable until the participant reaches retirement age; mandatory distributions start at age 70½.

Retirement Planning

INSTRUCT students to write a brief history of their potential financial lives in the **Retirement Planning Activity**(*Student Guide,* page 108-110). Ask them to write how they envision their financial lives happening between various age ranges.

SAY … While it may be hard for you to think 40 years into the future, it's most important to describe your long-term goals clearly, and the next ten years should be very detailed. Include your net worth, cash flow, and lifestyle choices such as trips, toys, living arrangements, cars, relationship, family choices, etc.

GUIDE participants through the following example.

BETWEEN AGES 30 AND 40:

- **Investments**
  Write about the type of investments that interest you, and how much time you will devote to study.
- **Net Worth & Cash Flow**
  Indicate how much you will have (net worth) and how much money will come from cash flow.
- **Lifestyle**
  List things you will have; things you'll experience during this time; how you feel about your money situation; and how you picture your day-to-day life.

BETWEEN AGES 40 AND 50:

- **Investments.**
  My main investment will be in my education. I will begin to study about the investments I

am interested in making, and building a team that can advise me. I also plan to increase my savings by $200 each month by reducing my expenses.

- **Net Worth & Cash Flow.**
  By the time I reach age 46, I want to have $30,000 saved and invested. I also will have my employer-sponsored retirement plan fully funded each year.
- **Lifestyle.**
  I will stay focused on doing what I know I like now – travel; meeting new people; experiencing new cultures. I will pay for these activities by reducing my overhead and expenses in areas that aren't as important to me.

Investment Action Plan

SAY … Becoming a good investor and moving yourself toward financial freedom will take a commitment, but it doesn't have to be a huge commitment. Just 30 minutes per week can give you a solid foundation to invest for your future. Can you promise to spend 30 minutes a week learning about investments? If so, you're ready to create your investment action plan.

REVIEW

- Spend just 30 minutes every week studying investment topics. Become a lifelong learner and you could get to a point where you make more money on your investments than you would earn working a job.
- Have your plan and safety net in place:
  - 6 months emergency fund
  - Have a long-term investment strategy
  - Only invest risk capital
  - Have a trusted team
  - Only invest in things about which you're an expert.

Slides 69: Your Path

SAY … This course has given you all the tools you need to reach financial freedom. You now have strategies and plans in place to create an excellent balance for your financial health. You know the five areas to work on, and you know what you're striving for in each area.

REVIEW the information on the slide.

- **ASSETS.** You'll work toward having an emergency fund, risk capital, sound investments, and a solid plan to grow your wealth.
- **INCOME.** You know what to do to move toward having multiple income streams and develop the skills to increase your earning potential.
- **CREDIT.** You understand the importance of having an excellent credit score and know what to do to get there.
- **INSURANCE.** You know how much and what types of insurance you need to protect yourself, your family, and your assets and you have a plan for getting adequate coverage in place.
- **DEBT.** You understand the benefits of keeping debt low, and know the difference between good debt and bad debt. You know how to leverage debt to increase assets.

Slide 70: Final Tips

REVIEW the steps on this slide that students will use to create their own personal financial plans.

- Decide how much money you need to live your desired lifestyle.
- Write financial goals that set a specific dollar amount and date by which you want to reach your goal.
- Create a savings plan to help you reach your goal.
- Build a solid financial foundation (budget, credit, and proper accounts), and gain knowledge on the stock market, real estate, businesses, and other potential investments.
- Build a team of trusted advisors, possibly including a financial planner, real estate specialist, insurance agent, tax expert, or other associates who are successful investors.
- Plan each investment before putting your money at risk. Always enter investments with an exit plan, and prepare for many possible scenarios.
- Stay emotionally unattached to your investments. Make your decisions based on logic and facts.
- Implement your strategy and re-plan as necessary.

SAY ... Now you know more about money than most people in the entire country. While it might not happen today, you can achieve financial wellness within five short years, no matter what your situation is right now.

Now that you've created your plan for financial freedom, all you have to do is follow it! Revisit your plans at least once a year and adjust them as your circumstances change. But stick to your plan.

Be a lifelong learner. Continue to learn about money management, because the economy is sure to change over time. Build the skill sets you need to move forward in your career and investments.

Having a financial plan means you can avoid the pitfalls of greed and fear that face people who don't plan ahead for their futures. You are many steps ahead!

Things change, and your plans may not always have the results you expect. Your investments may not always go your way. If you have a setback, stay calm. Think logically and consider the alternatives — having a Plan B for contingencies is part of your financial planning process!

You have all the steps. You're ready to go!!

Slide 71: Thank You & Best Wishes!

Glossary

Student Guide, page 80

SAY … If you turn to the back pages of your *Student Guide*, you'll see a handy glossary to help define some of the financial terminology you've heard today. Take a look with me, and we'll go over some of them. You can use this later as a quick reference.

annuity. An insurance product that pays out income to investors. Annuities are commonly used as a retirement strategy for those seeking an income source at retirement.

appreciation. An increase in the value of an asset over time.

asset. A resource with economic value that an individual, corporation, or country owns or controls, with the expectation that it will provide future benefit.

bond. A bond is an investment in debt. The investor receives a contract from the company that seeks to borrow money that they agree to repay with interest at fixed intervals.

budget. An estimate of income and expenditure for a set period of time.

capital loss. The amount by which the purchase price of an asset exceeds the selling price; the loss is realized when the asset is sold.

Certificates of Deposits (CDs). Short- and medium-term debt instruments offered by banks and credit unions. CDs are similar to savings accounts except they may offer a higher interest yields and have set time lengths. For example, common CD terms are 3 months, 6 months, 1 year, 2 years, and 5 years.

commodities. The materials used to create products. This can include gold, wheat, oil, currencies and steel to name a few.

compounding interest. Interest that accrues on the initial principal and the accumulated interest of a principal deposit, loan, or debt.

diversification. Reducing risk by investing in a variety of assets.

emergency fund. An account that is used to set aside *funds* to be used in a *crisis*, such as the loss of a job, an illness or a major expense.

Exchange Traded Fund (ETF). A security that tracks an index, commodity, or other assets but trades like a stock.

individual stock. An instrument that signifies a stockholder is part owner in the corporations.

inflation. The rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

investment. An asset or item that is purchased with the hope that it will generate income or appreciate in the future.

liability. Any money or service that is currently owed to another party.

lifestyle. The way a person lives to one's own ability.

monetary inflation. A sustained increase in the money supply of a country.

mutual fund. An instrument operated by an investment company that raises money from shareholders to invest the money into assets in a way that aligns with the stated investment objective.

net worth. The amount by which one's assets exceed liabilities.

opportunity cost. The cost of an alternative that must be forgone in order to pursue a certain action.

real estate. Real estate investments can range from buying your own home, to a rental property, to commercial buildings.

risk capital. Money that can be set aside and invested without endangering an individual's wealth or income.

risk tolerance. The degree of variability in investment returns that an individual is willing to withstand.

savings account. A deposit account with a bank or credit union that earns interest.