Identify Personal Financial Goals

Unit: Basic Skills

Problem Area: Manage Personal Finances

Lesson: Identify Personal Financial Goals

Student Learning Objectives. Instruction in this lesson should result in students achieving the following objectives:

1. **Define wealth as it pertains to an individual.**
2. **Create a budget.**
3. **Describe investment and savings strategies.**

List of Resources. The following resources may be useful in teaching this lesson:

Building Wealth: A Beginning Guide to Securing Your Financial Future. Federal Reserve Bank of Dallas. Accessed November 01, 2007. <http://www.dallasfed.org/ca/wealth/pdfs/wealth.pdf>.

Carolan, Carol A. *The ABCs of Credit Card Finance.* Center for Student Credit Card Education, Inc., 2002.

Green, Cynthia L. *Entrepreneurship: Ideas in Action,* 3rd ed. Thomson South-western, 2006.

Lowe, Ross E., Charles A. Malouf, and Annette R. Jacobson. *Consumer Education & Economics.* Glencoe/McGraw-Hill, 2008.

List of Equipment, Tools, Supplies, and Facilities

- ✓ Overhead or PowerPoint projector
- ✓ Visual(s) from accompanying master(s)
- ✓ Copies of sample test, lab sheet(s), and/or other items designed for duplication
- ✓ Materials listed on duplicated items
- ✓ Computers with printers and Internet access
- ✓ Classroom resource and reference materials

Terms.

The following terms are presented in this lesson (shown in bold italics):

- assets
- budget
- certificate of deposit
- compound interest
- investment
- liabilities
- money market account
- mutual funds
- net worth
- personal wealth
- savings account
- stocks

Interest Approach.

Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situation. A possible approach is included here.

> *Ask the students the questions "What does it mean to be rich?" and "If you want to be rich, how would you make this happen?" Record student responses to both questions on the board or on a flip chart.*

SUMMARY OF CONTENT AND TEACHING STRATEGIES

Objective 1: Define wealth as it pertains to an individual.

Anticipated Problem: How does one determine personal wealth?

I. Define personal wealth.

A. ***Personal wealth*** is an abundance of valuable material possessions or resources.

B. ***Net worth*** is the difference between ***assets*** (what is owned) and ***liabilities*** (what is owed); net worth is wealth.

1. Assets are the entire property of a person, association, corporation, or estate; possessions that generally increase in value or provide a return.
   a. ***Savings account*** (an account that accrues regular interest on money held in the account).
   b. A retirement plan, such as an Individual Retirement Account (IRA), Simplified Employee Pension (SEP), 401(k) (an employer-sponsored pension plan), etc.
   c. ***Stocks*** (capital raised by a corporation through the issuance of shares that entitle holders to an ownership interest) and bonds (interest-bearing certificate of public or private indebtedness).
   d. A dwelling, such as a house or a condominium.
2. Liability is money that is owed (debt).
   a. Home mortgage.
   b. Credit card balances.
   c. Car loan.
   d. Medical bills.
   e. Student loans.

C. Set financial goals.

1. Set specific goals.
   a. Be realistic.
   b. Establish time frames.
   c. Devise a plan.
   d. Be flexible; goals can change.

Many techniques can be used to help students master this objective. Use LS–A to help students figure their net worth.

Objective 2: Create a budget.

Anticipated Problem: Why is a budget important?

II. Define a budget.

A. A ***budget*** is an estimate of anticipated income and expenses for a certain period of time.

1. Income is financial gain (earned or unearned) accruing over a given time period.
2. Expense is financial burden or outlay; cost of goods and services.

B. Advantages of a budget.

1. Understand where your money goes.
2. Avoid spending more than is available.
3. Invest expendable income to increase personal wealth.

C. Develop a budget.

1. Calculate monthly income.
2. Track daily and/or monthly expenses.
3. Determine the amount needed to pay monthly expenses.
4. Divide annual or semiannual costs into monthly costs.

D. Figure budget surplus or deficit by taking monthly income and subtracting monthly costs; the amount remaining is available for investment.

Many techniques can be used to help students master this objective. For example, invite students to bring in pay stubs from their jobs to help determine their personal monthly income. To create a budget, first ask students to record any items purchased in the last two weeks. This will help determine their monthly expenses. Next, determine monthly income. Provide a copy of the LS–B budget worksheet to complete their monthly budget calculations.

Objective 3: Describe investment and savings strategies.

Anticipated Problem: What options are available to save and invest expendable income?

III. Describe investment strategies.

A. ***Investment*** is anything acquired for future income or benefit; to commit money in order to earn a financial return. This return is from generating additional income or by an investment growing in value.

1. Stocks.

2. ***Mutual funds*** are a professionally managed form of collective investments. Money is pooled from many individuals and invested in stocks, bonds, short-term money market instruments, and/or other securities.
    a. The fund manager (portfolio manager) trades the fund's underlying securities, realizing capital gains or losses, and collects the dividend or interest income.
    b. The investment proceeds, in the form of dividends or interest income, are then passed along to individual investors.
3. Items of value that can be resold, such as real estate, vehicles, etc.

B. ***Compound interest*** is the concept of adding accumulated interest to the principal so that interest is earned on accrued interest. This investment strategy helps build wealth faster.
1. The act of making the accrued interest part of the principal amount is called compounding.

C. Types of savings accounts.
1. A personal savings account is an account often provided through a local bank, savings and loan, credit union, etc.
2. A ***money market account*** is a savings account offered by banks and credit unions and is similar to a regular savings accounts. The difference is that these accounts usually pay higher interest, have higher minimum balance requirements, such as $1000 to $2500, and allow only three to six withdrawals per month.
    a. Similar to a checking account, many money market accounts allow writing up to three checks each month.
    b. The money market account is insured by the Federal Deposit Insurance Corporation (FDIC), which means that even if the bank or credit union goes out of business, which is very rare, the money in the account is still protected.
        (1) The FDIC is an independent agency of the federal government that was created in 1933 because thousands of banks had failed in the 1920s and early 1930s.
        (2) Not a single person has lost money in a bank or credit union that was insured by the FDIC since it began.
    c. If the money market account is obtained from a credit union, it is insured by the National Credit Union Administration (NCUA), a federal agency.
3. A ***certificate of deposit*** or CD is a deposit held for a certain period of time and is a financial product commonly offered to consumers by banks, thrift institutions, and credit unions.
    a. CDs are similar to savings accounts in that they are insured and thus virtually risk-free. CDs from a bank are insured by the FDIC. CDs purchased from a credit union are insured by the NCUA.

b. CDs differ from savings accounts in that the CD has a specific fixed term of three months, six months, or one to five years, and usually a fixed interest rate.
c. It is intended that the CD be held until maturity, at which time the money may be withdrawn together with the accrued interest.

Many techniques can be used to help students master this objective. To get students to understand compound interest, provide a simple compound interest problem on the board to demonstrate how money can grow over time. Use VM–A to illustrate investing and saving.

Review/Summary. Use the student learning objectives to summarize the lesson. Have students explain the content associated with each objective. Student responses can be used in determining which objectives need to be reviewed or taught from a different perspective. The anticipated problems can be used as review questions.

Application. Use the included visual master and lab sheets to apply the information presented in the lesson.

Evaluation. Evaluation should focus on student achievement of the objectives for the lesson. Various techniques can be used, such as student performance on the application activities. A sample written test is provided.

Answers to Sample Test:

Part One: True or False

1. T
2. T
3. T
4. F
5. T
6. T
7. T
8. T
9. F
10. T

Part Two: Short Answer

1. Understanding where money goes; not spending more money than is available; identifying expendable income to increase personal wealth.
2. An asset is a possession that generally increases in value or provides a return, while a liability is money that is owed to others.

Part Three: Matching

1. e
2. a
3. b
4. c
5. d

Sample Test

Name ________________________________

Identify Personal Financial Goals

Part One: True or False

Instructions: **Write T for true or F for false.**

_____1. Liability is money that is owed.

_____2. An advantage of a budget is helping to understand where money goes.

_____3. In order to create a budget, calculate monthly income.

_____4. Assets + liabilities = net worth

_____5. A savings account balance is an example of a personal asset.

_____6. Compound interest helps build wealth faster.

_____7. Flexibility is important when setting financial goals.

_____8. A car loan is an example of a liability.

_____9. Stocks are an example of pooled money managed by a fund manager or investment firm.

_____10. Be realistic when setting financial goals.

Part Two: Short Answer

Instructions: **Complete the following.**

1. List three advantages of creating a personal budget.

2. Explain the difference between an asset and a liability.

Part Three: Matching

Instructions: **Match the term with the correct definition.**

a. assets
b. budget
c. investment
d. liabilities
e. net worth

_____1. Difference between assets and liabilities

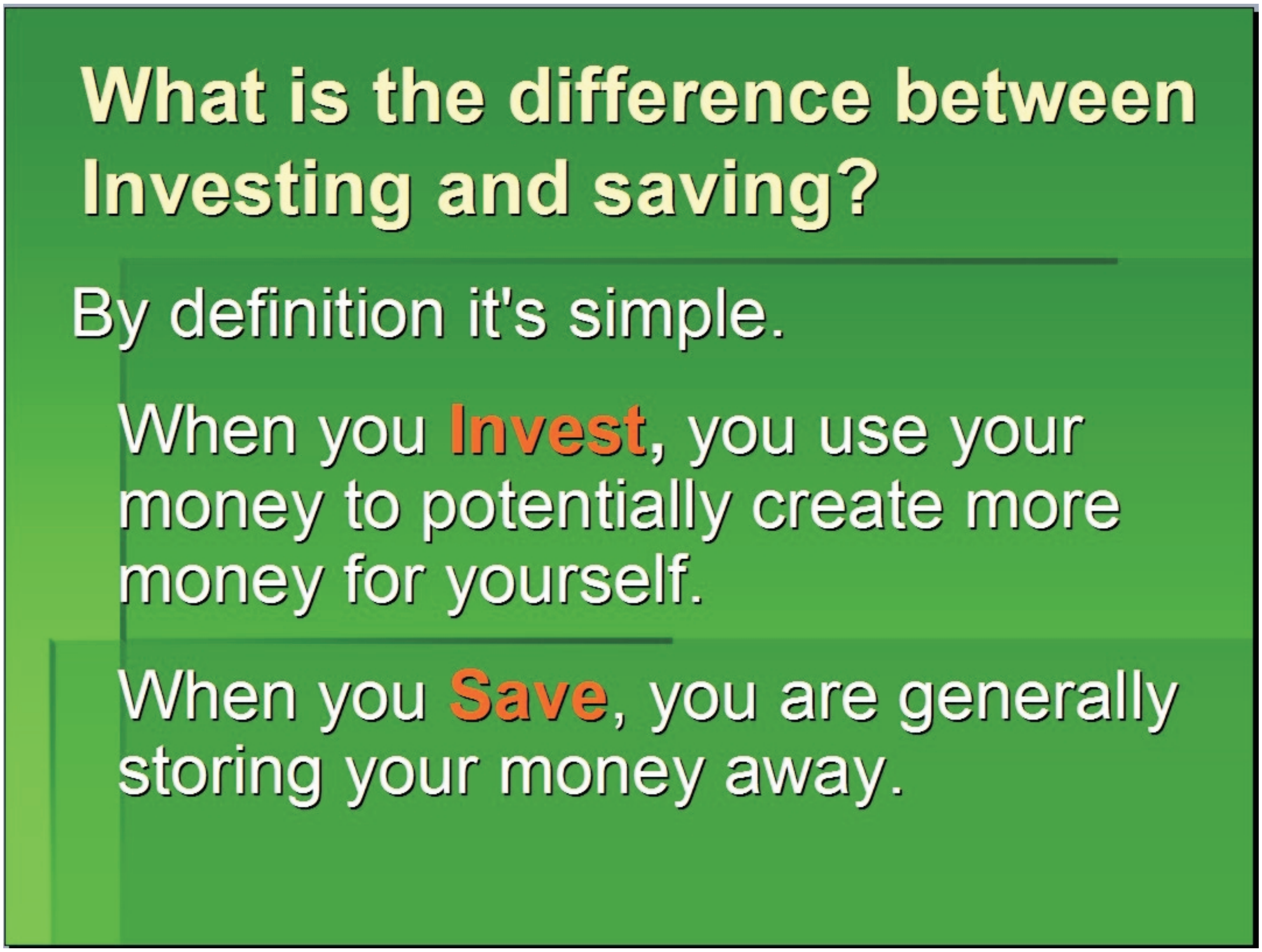
_____2. What is owned

_____3. An estimate of anticipated income and expenses for a certain period of time

_____4. Anything acquired for future income or benefit

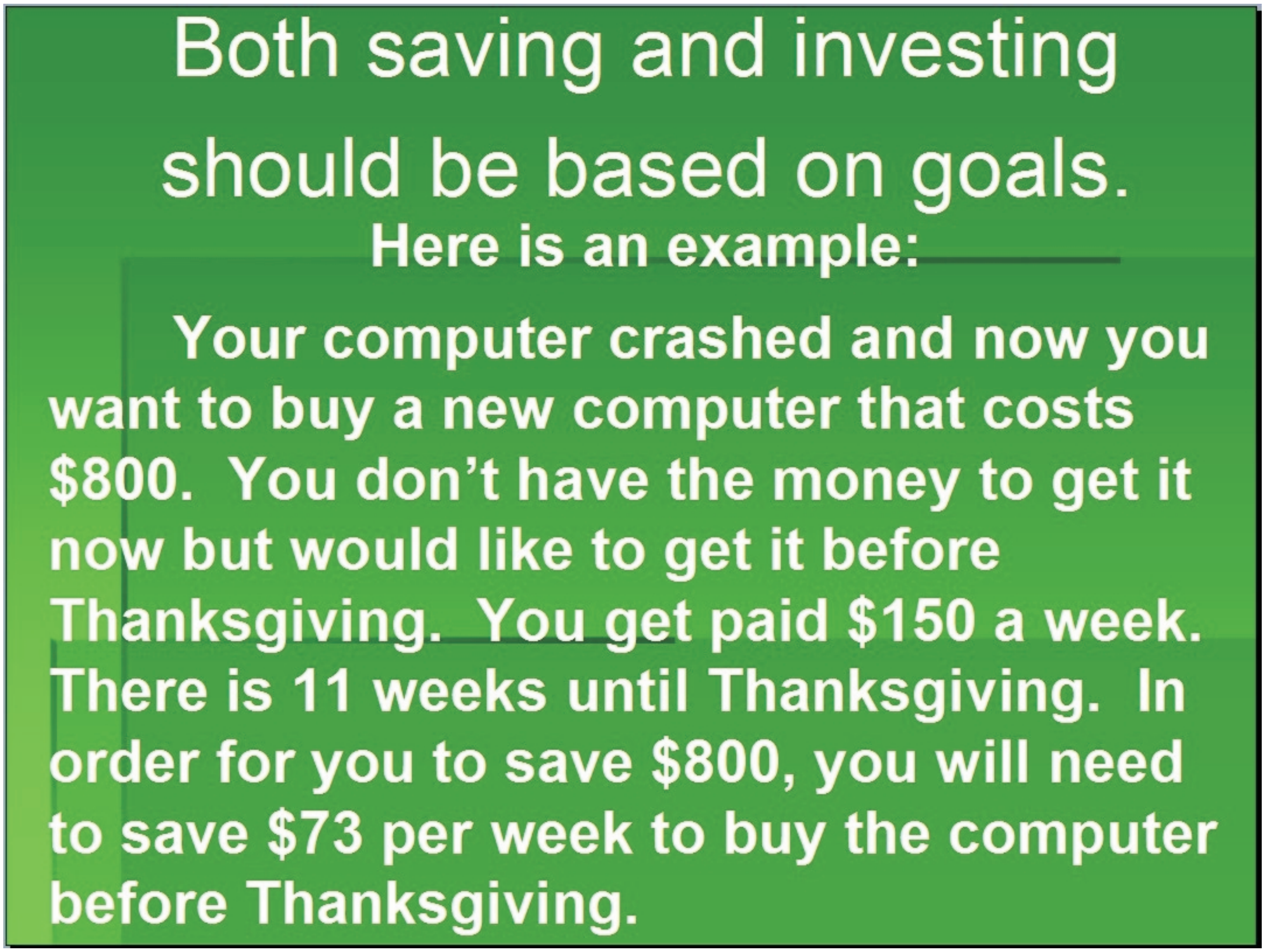
_____5. What is owed

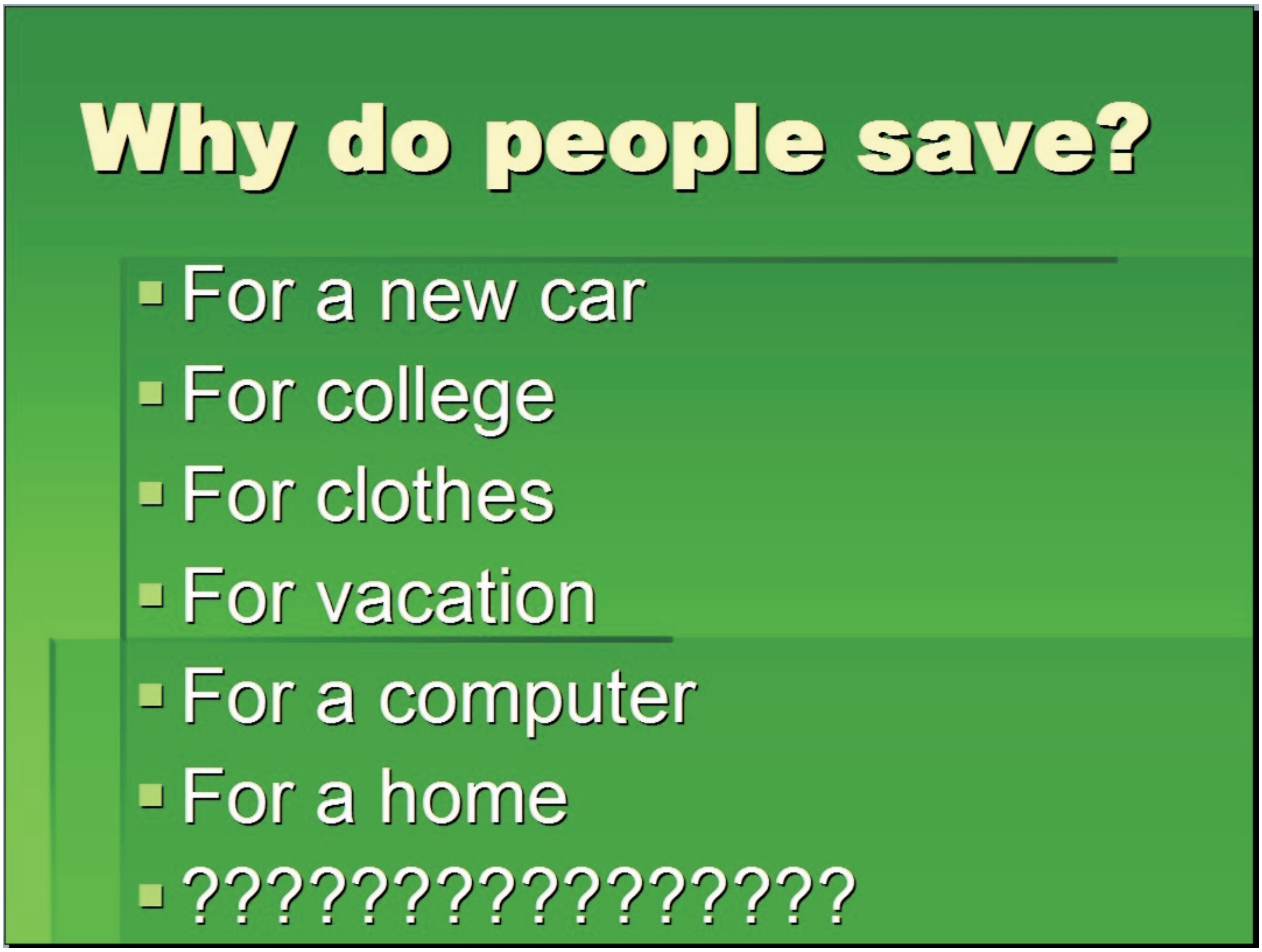
VM–A

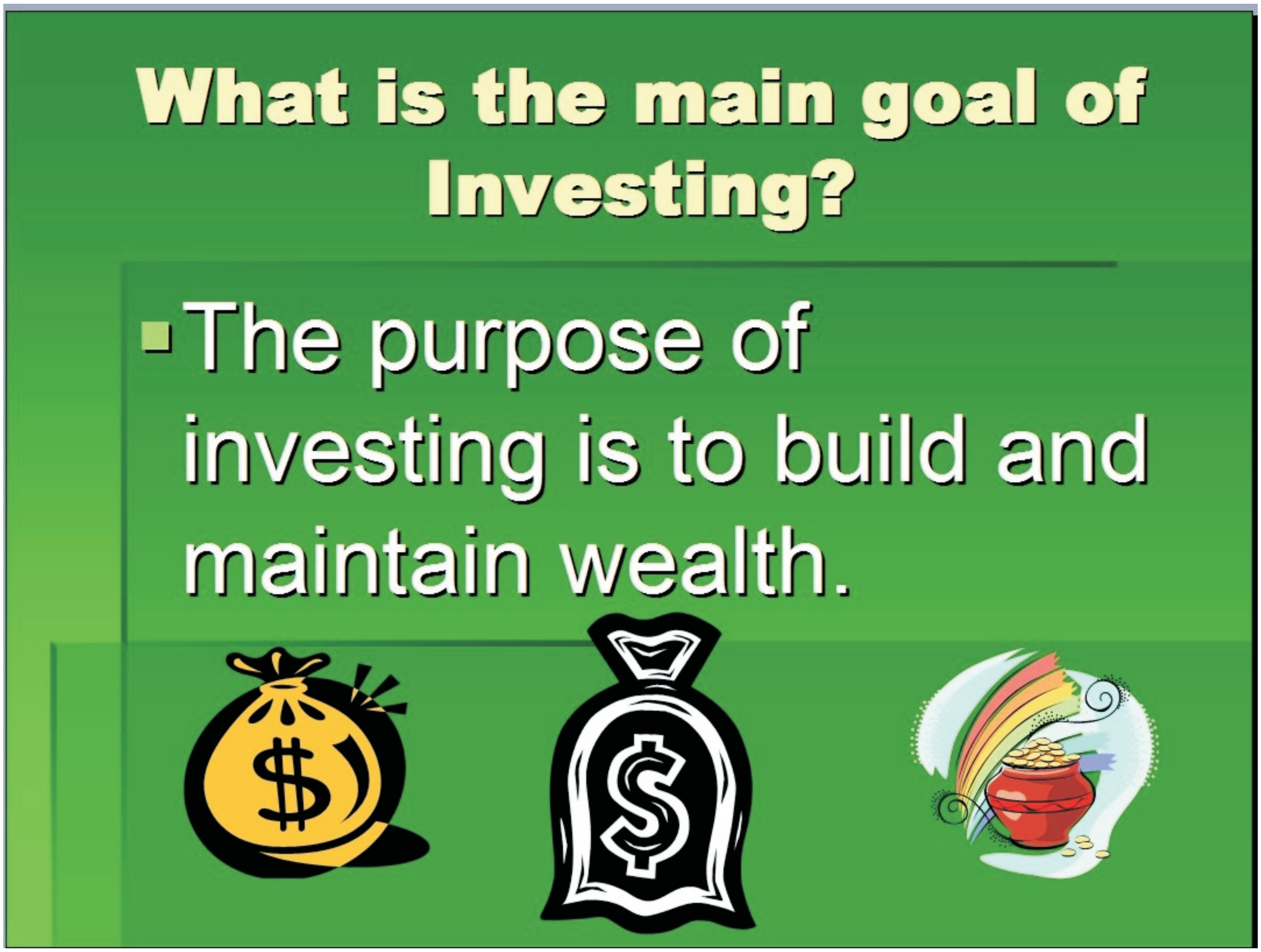

What is the difference between Investing and saving?
By definition it's simple.
When you Invest, you use your money to potentially create more money for yourself.
When you Save, you are generally storing your money away.

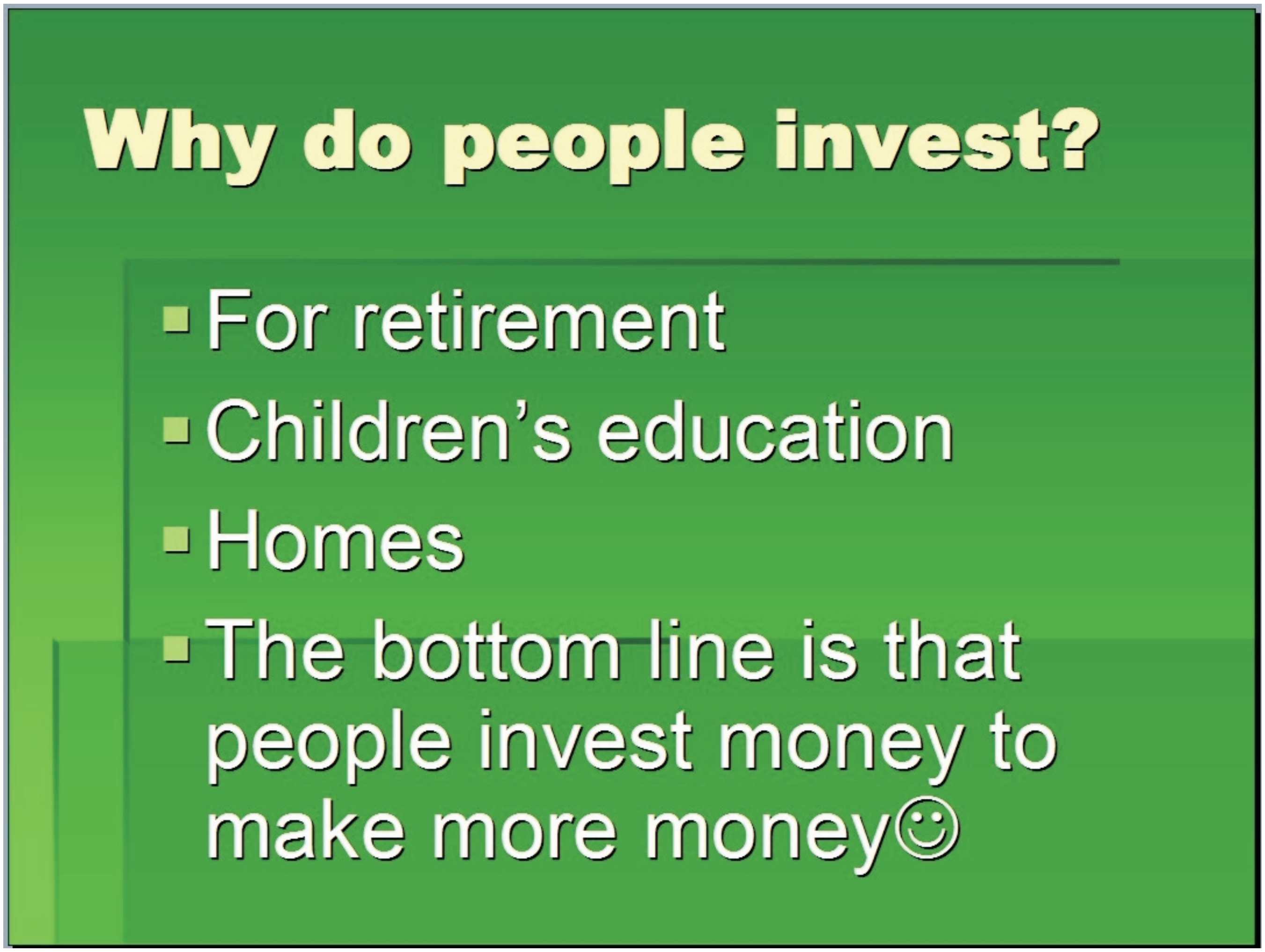
Obviously, putting money into a savings account is very safe with no risks. If you put $15,000 into a savings account today, you will have that same $15,000 in that account come the same time a year from now (with a little interest added to it….maybe $100 more)

But if you took that same $15,000 and invested it into an aggressive stock fund that has been earning 14.9%, you could make up to $2,540 in a year. That's $15,000 plus $2,540 which would be $17,540.


Both saving and investing should be based on goals.
Here is an example:
Your computer crashed and now you want to buy a new computer that costs $800. You don’t have the money to get it now but would like to get it before Thanksgiving. You get paid $150 a week. There is 11 weeks until Thanksgiving. In order for you to save $800, you will need to save $73 per week to buy the computer before Thanksgiving.


Why do people save?
For a new car
For college
For clothes
For vacation
For a computer
For a home
????????????????

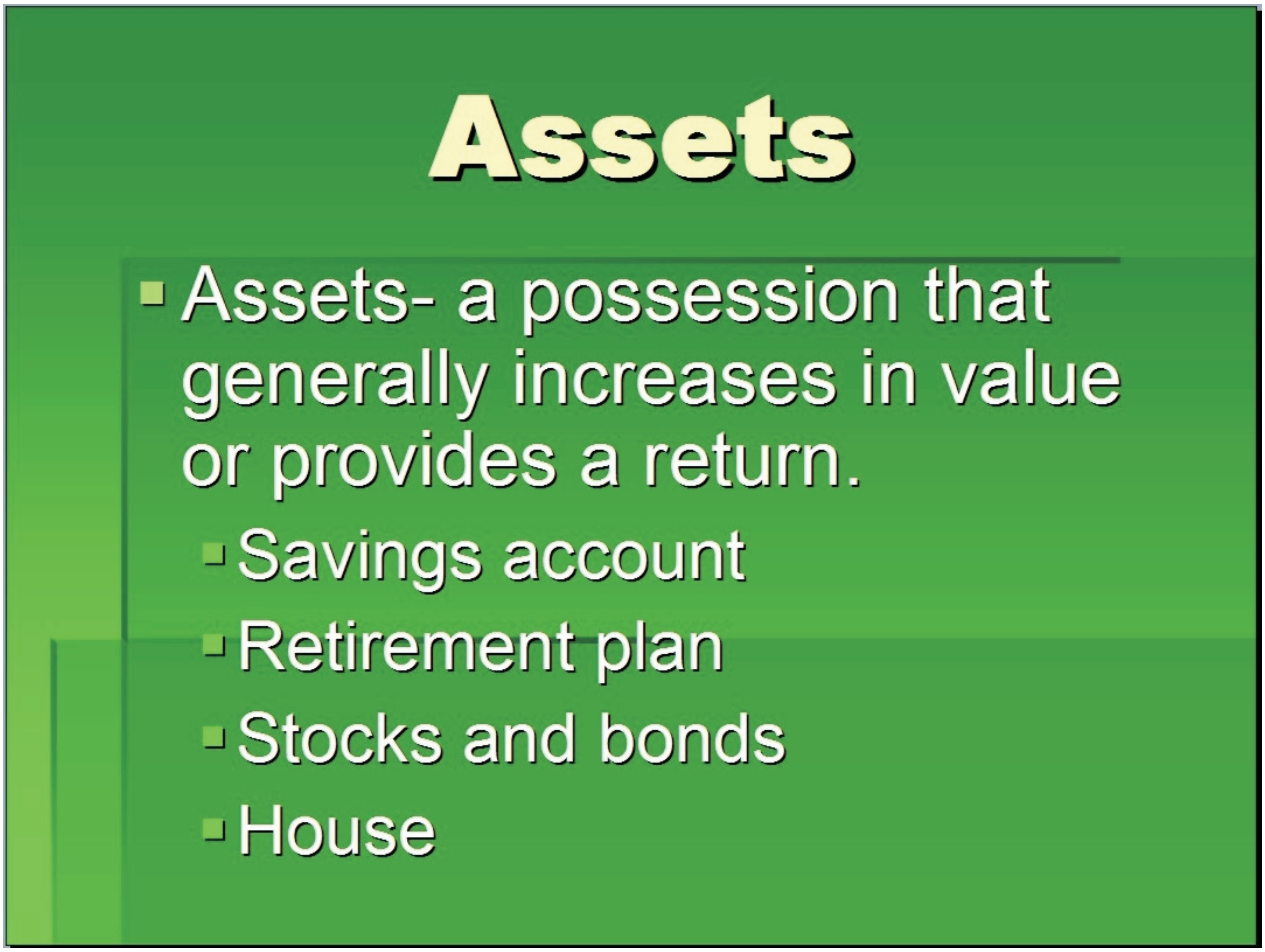

What is the main goal of Investing?
The purpose of investing is to build and maintain wealth.

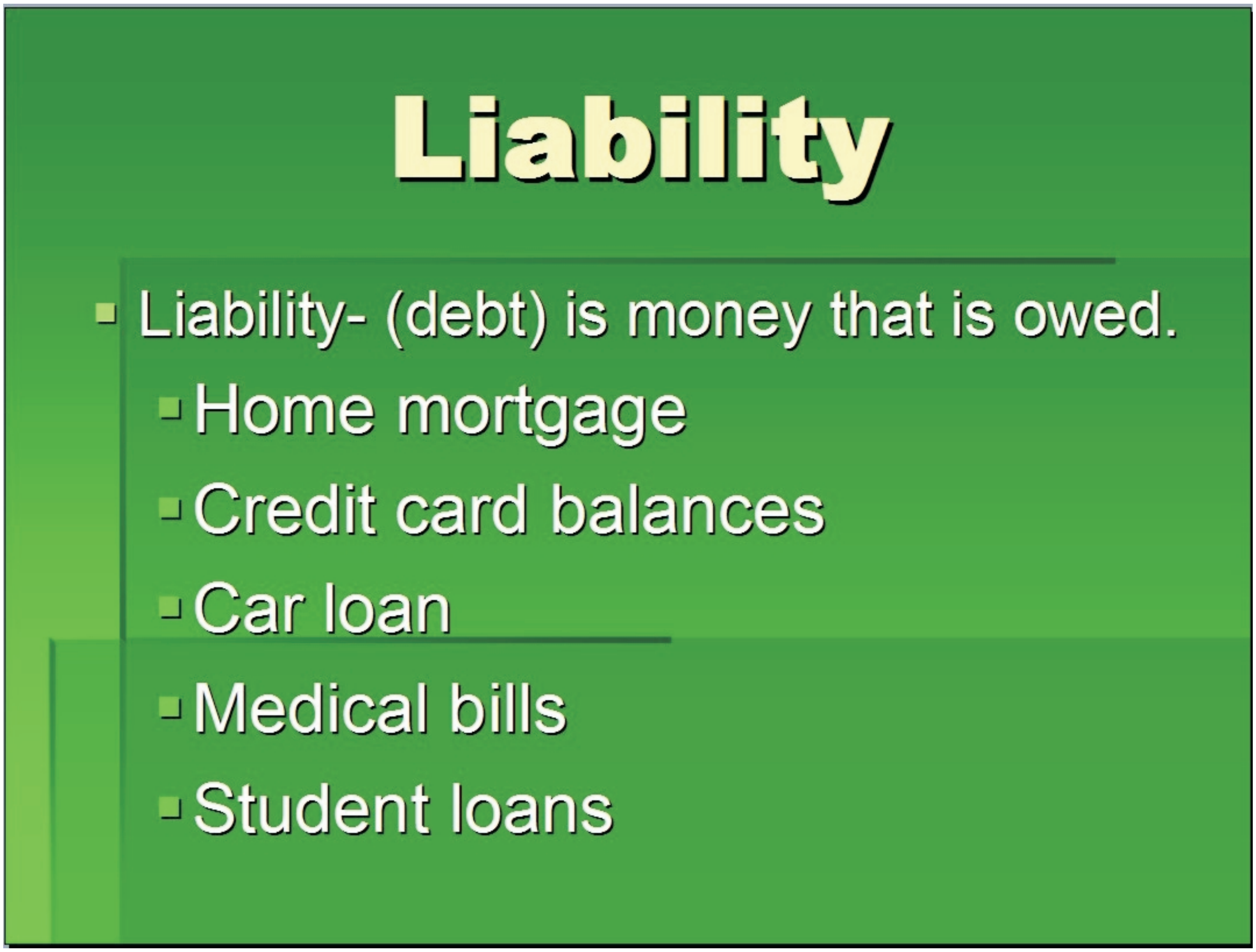

Why do people invest?
For retirement
Children’s education
Homes
The bottom line is that people invest money to make more money☺

What is your Net Worth?

Assets - Liabilities = Net Worth

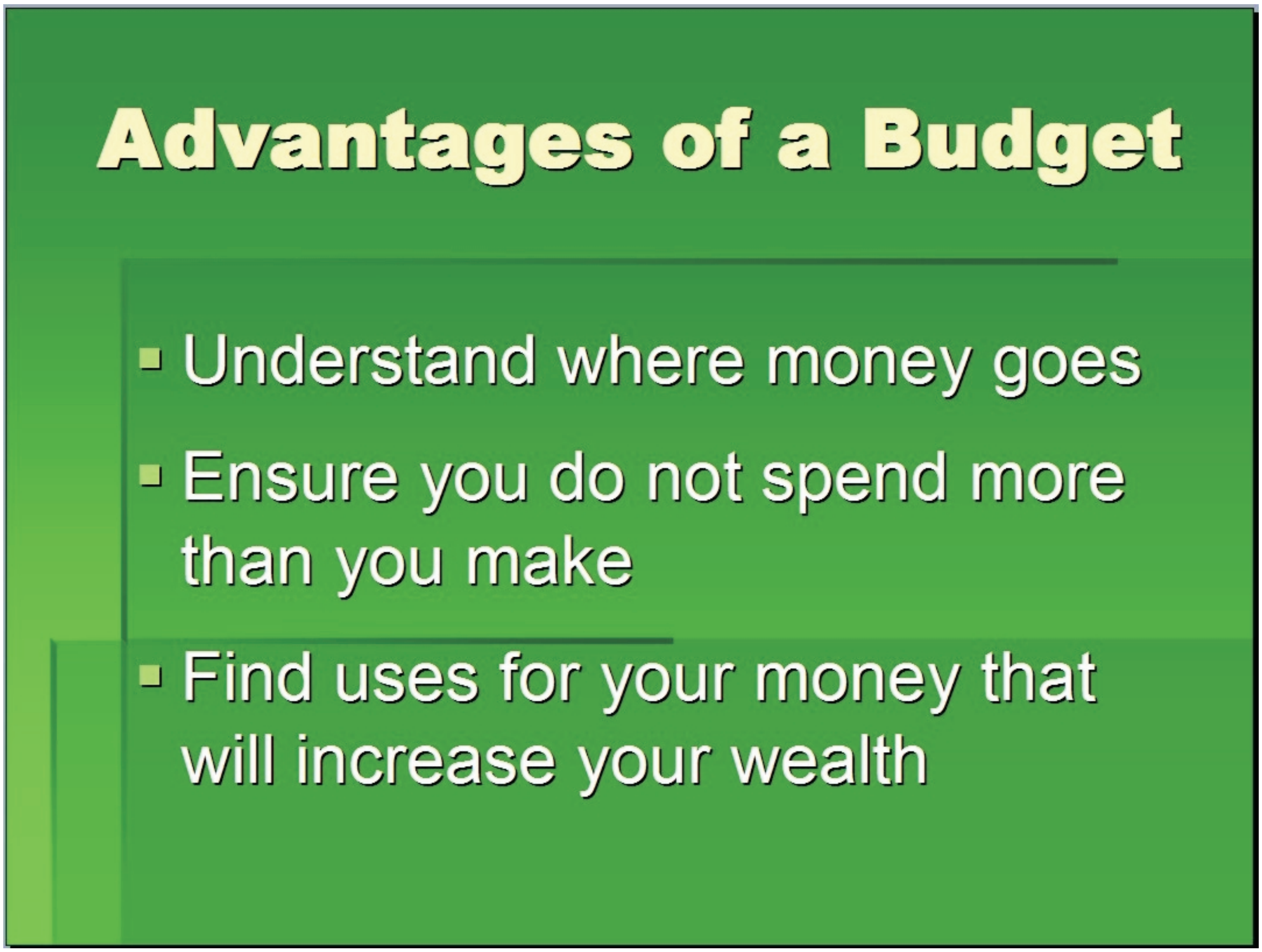
Net Worth is the difference between assets (what is owned) and liabilities (what is owed). Your net worth is your wealth.

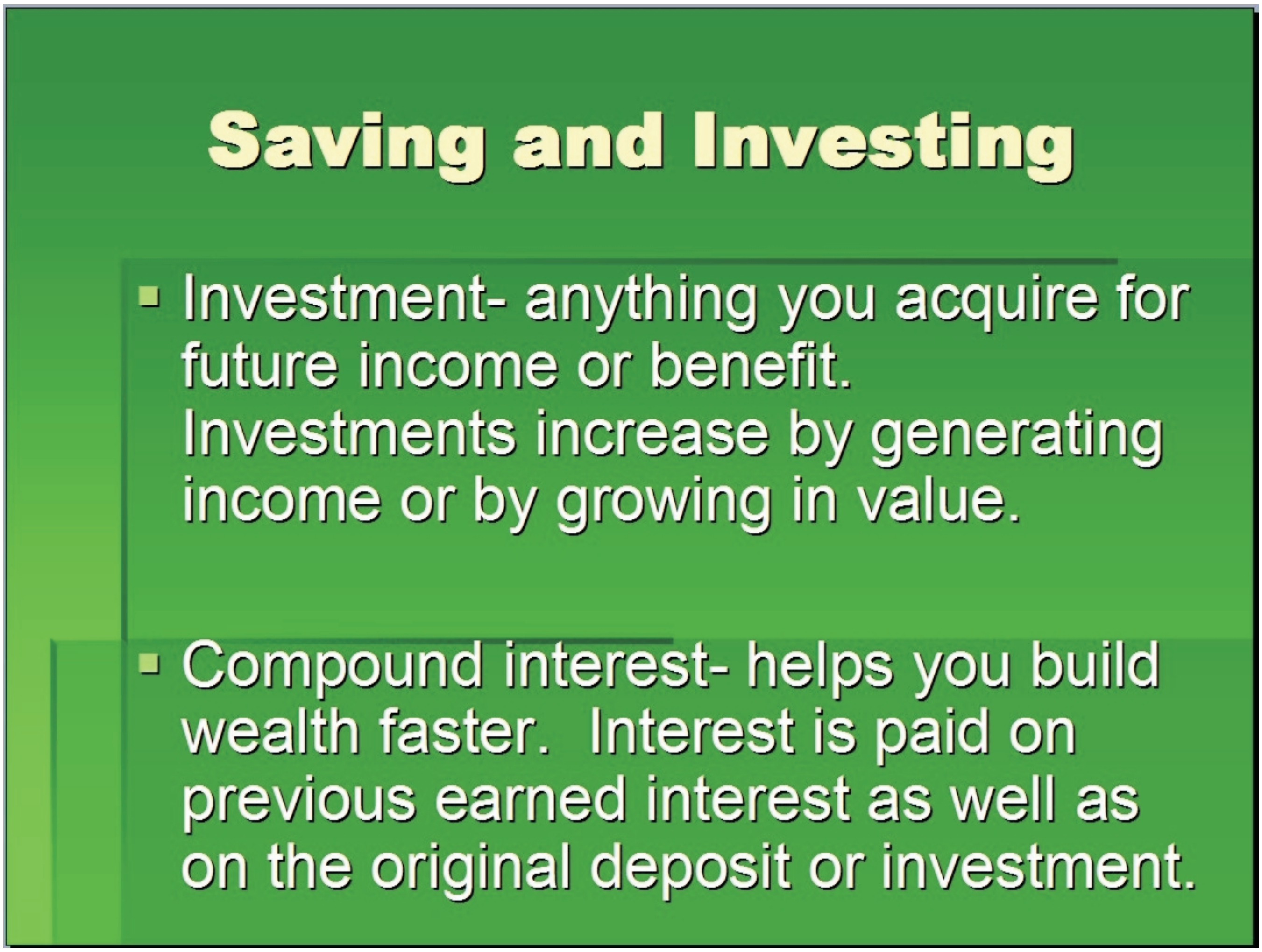

Assets
Assets- a possession that generally increases in value or provides a return.
Savings account
Retirement plan
Stocks and bonds
House


Liability
Liability- (debt) is money that is owed.
Home mortgage
Credit card balances
Car loan
Medical bills
Student loans


Setting Financial Goals
Set specific goals
Be realistic
Establish time frames
Devise a plan
Be flexible; goals can change


Budget
How to develop a budget
Calculate your monthly income
Track your daily expenses
Determine how much you spend on your monthly bills


Advantages of a Budget
Understand where money goes
Ensure you do not spend more than you make
Find uses for your money that will increase your wealth


Saving and Investing
Investment- anything you acquire for future income or benefit. Investments increase by generating income or by growing in value.
Compound interest- helps you build wealth faster. Interest is paid on previous earned interest as well as on the original deposit or investment.

Ways to Save and Invest

- Savings account
- Money market- type of saving account offered by a financial institution
- Certificate of deposit- type of savings account that earns a fixed interest rate over a specific amount of time.

More Ways to Save/ Invest

- Stocks- the capital raised by a corporation through the issue of shares entitling holders to an ownership interest
- Mutual fund- a pool of money managed by an investing company

Name ___________________________

Determine Your Net Worth

Purpose

The purpose of this activity is to determine your net worth.

Objective

1. Determine your net worth.

Materials

- lab sheet
- writing utensil
- calculator

Procedure

1. Record assets (and the dollar amount) on the left side of the worksheet.
2. Total the dollar value of your assets.
3. Record liabilities (and the dollar amount) on the right side of the worksheet.
4. Total the dollar value of your liabilities.
5. To find your net worth: Subtract the liability total from the assets total.

Assets	Liabilities

LS–B

Name ________________________________

Create a Budget

Purpose

The purpose of this activity is to determine your monthly budget.

Objective

1. Determine your monthly budget.

Materials

- lab sheet
- writing utensil
- calculator
- computer with spreadsheet software

Procedure

1. Fill in dollar amounts in the spreadsheet spaces.
2. Calculate totals for each category and determine if your budget has a deficit (too few dollars) or a surplus (expendable income).
3. Any expendable income (surplus) may be used for investment or savings.
4. Write a short action plan to invest your surplus or a plan to recover the deficit.

****MONTHLY FIXED EXPENSES****	
Rent/Mortgage Payments	
Car Payment	
Other Installments	
Appliances	
Furniture	
Regular Savings	
Emergency Fund	
TOTAL	
*****ANNUAL EXPENSES*****	
Life Insurance	
Home Insurance	
Car Insurance	
Real Estate Taxes	
Car Registration	
Pledges/Contributions	
TOTAL	
DIVIDE MONTHLY SHARE TOTAL BY 12	
*****MONTHLY BALANCE SHEET*****	
Net Income	$
(Total Budget)	$
Living Expenses	$
Fixed Expenses	$
Annual Expenses	$
TOTAL MONTHLY EXPENSES	$
BALANCE	$