Personal Financial Literacy: An Introduction to Financial Planning

Overview
In this introductory lesson on personal financial literacy, students will discuss the importance of financial planning and the various steps in the process. Through a variety of activities, they will differentiate between wants and needs and explore the decision making process and associated opportunity costs. Students will also develop, implement, and monitor a simple plan for reaching personal financial goals, For additional lessons on Personal Financial Literacy, see *Saving & Investing*, *Using Credit Wisely*, and *Checking*, available in Carolina K-12's Database of K-12 Resources (https://k12database.unc.edu) This lesson was adapted by the Consortium from the National Endowment for Financial Education High School Financial Planning Program.

Grade
10

Essential Questions
- What is a financial plan?
- Why is it important to have a financial plan?
- How do you earn/receive money? How do you spend it?
- How can you benefit from a financial plan? How can your modify your plan?
- What is the importance of saving?

Key Terms
- Financial planning
- Wants/Needs
- Instant gratification/Delayed gratification
- Personal spending record
- Cash flow
- Opportunity cost

Materials
- True/False Cards, attached
- Steps to Financial Planning flowchart, attached
- Needs/Wants signs, attached
- My Financial Goals chart, attached
- Personal Spending Record, attached
- Stages of Decision-Making, attached
- Family scenario index cards, attached

Duration
1-2 class periods
2 weeks of homework if *Personal Spending Log* activity is assigned

Procedure
1. Arrange students in pairs and distribute the "True/False" Cards. Explain that you will make a statement, and each pair will have 30 seconds to discuss whether or not they think the statement was true or false. After 30 seconds, each pair must come to a consensus and hold up the card that corresponds with their answer. (If disagreement arises in the pairs, tell students to hold up both cards.) As you go through the questions, tally

the number of "True" and "False" answers to discuss after you have given students an opportunity to think about all the statements. The statements/answers are as follows:

- Statements:
  a. Teens get most of their money from part-time jobs
  b. Most teens who are 18 or 19 years old have a checking account
  c. Ninety percent of high school students rely on their parents for information about money
  d. On average, American teens spend more than $10 billion a year.
- Answers:
  a. False. 55% of teens report getting money from parents/guardians; 43% from gifts; 28% from odd jobs; 25% from part-time jobs; 21% from allowance; 6% from a full-time job; 2% from their own business. (*Teen Research, Inc.)*
  b. True. 64% of teens 18-19 years of age have a checking account. (*Teen Research, Inc.)*
  c. True. *(National Retail Federation)*
  d. False. A recent survey showed that American teen spending exceeded $169 billion in one year. (*Teen Research, Inc.)*

Discuss the range of answers. Ask students what they found most interesting or surprising about the statements.

2. Have students return to their seats. Give them 8 minutes to answer the following questions:
   a. What is an item that you would like to have, but cannot currently afford?
   b. Assuming you are starting with no money and you cannot count on anyone else to simply give it to you, how will you go about saving enough for the item?
   c. How long do you think it will it take you to save enough money to buy the item?
   d. What are some other expenses you need to consider while saving up? Will you make any sacrifices?

   Spend a few minutes discussing students' answers. Explain that they have just come up with a simple "financial plan" to meet a specified goal.

3. Define **financial planning** as "a process of setting goals, developing a plan to achieve them and putting the plan into action." Present students with the "Steps to Financial Planning" flowchart and tell students you will be discussing each of the steps in detail.

   - **Step 1**: **Set Goals**
     - Facilitate a discussion about the importance of **goal-setting**. To prompt discussion, you may want to share with students the following quote, "If one does not know to which port one is sailing, no wind is favorable" (Seneca). Explain to students that goal-setting with regard to financial planning involves thinking about what "things" one needs and wants in the short-, intermediate-, and long-term. Stress that setting financial goals is important. It is easier to find the money for a new pair of shoes you know you'll need in June if you make a plan in April and save a little each week, instead of scrounging up the money at the last minute.

     - Next, ask students to distinguish "**needs**" from "**wants**." "Needs" are the very basic things we must have to survive. "Wants" are the things that make life more interesting and fun, but you could live without them if you had to. For example, you need to eat, but you want to go out and eat pizza with friends. You need a place to live, but you want a TV in each room. You need to wear clothes, but you want designer jeans. When making a financial plan, "needs" should come first.

➢ <u>Optional activity:</u> Have students move to the center of the room, and hang signs that say "Needs" and "Wants" at opposite ends of the room. Tell students that you will name an item, and each person must decide whether they think the item named is a "need" or a "want." Explain that perceptions may vary, and that's okay. After each item, ask students on either side of the room why they thought the item named was a need or a want. Some ideas for items include: automobile, cell phone, newspaper, athletic shoes, business suit, bottled water, etc. You may want to let a few students name items as well.)

- Ask students to distinguish between **short-term goals** (less than 3 months to reach), **intermediate goals** (between 3 months and a year), and **long-term goals**. You may want to use the following examples:
  - Birthday present for a friend whose birthday is next month
  - Next week's date
  - Trip after you graduate
  - New pair of shoes
  - Video game
  - Yearbook at the end of the school year
  - First semester of college
  - Down payment on a house
  - Wedding

- Explain that with long-term goals, you often have to be willing to give up something you want now to get something even better in the future. This is called "**delayed gratification**." Many Americans are in deep credit card debt because they opt for "**instant gratification**"—buying something they want as soon as they see it. When credit cards are used to buy something immediately, the user must pay interest on the money they borrowed from the credit card company. This means that they are really paying more for the item (price +interest) than if they saved money and paid with cash.

- Have students think of some short-, intermediate-, and longterm goals they might have. Using the "My Financial Goals" chart provided, ask students to think about how they plan to meet each goal. Allow them 20 minutes to fill out the chart. When they finish, discuss some of their goals and how they plan to reach them.

- **Step 2: Analyze Information**
  - Explain that the second step in the financial planning process is to find out where your finances currently stand, so you can see how much money you are receiving, spending, and saving.

  - Give students 20 seconds to think about how much money they think they spend in 4 weeks. Tell them it is okay at this point to have a ballpark figure. Have them write the number down on a sheet of notebook paper. Now give students 8-10 minutes to think about their actual spending in the last 4 weeks. (Tell the class if they did not personally spend any money to try to think about how much money their parents or guardians might have spent on their behalf on groceries, school supplies, etc.). Have students make a list of what they purchased and how much each "item" cost. Next, ask students to list where they received the money for each item they purchased (teachers may want to let students know this information will be kept private). Tell them that, in effect, they are measuring what is called a personal "**cash flow**."

  - Next, distribute the "Personal Spending Log." Ask students to keep a record of any **income** they receive or **expenditures** they incur for the next 2 weeks. They may include money spent by parents of guardians if they do not receive or spend any money themselves. Tell students to do their best to include at least 2 sources of income and 5 expenditures over 2 week period.

  - After the 2 week period, ask students to discuss their income and expenditures. See if any unplanned expenses came into play, and if so, how students dealt with them. Did students have to borrow money from anyone? If so, did they pay them back or do they still owe? Did students save any of their income? What were the various sources students received money from?

- **Step 3: Make Decisions**
  - Explain to students that financial planning requires making many decisions, and making decisions about money can be particularly challenging because so many things come into play. One must consider their personal spending record, as well as the many other things that can affect decisions—your mood, values, culture, habits, and opinions of your friends and relatives. So how do you decide?

  - Present students with the "Stages of Decision Making" handout/overhead. Briefly discuss each of the steps. In order to demonstrate how people go through the stages when making a decision, ask students to pretend they are going to see a movie with friends, but when they get there it is sold out. What will they do? Together, go through the following example steps to a simple decision (actual responses may vary):
    1) Identify your goal: You want to see a movie with some friends.
    2) Establish your criteria: Consider what type of movie you and your friends want to see, when you want to watch the movie, and how much money you are able to/want to spend. By identifying your expectations in advance, you can eliminate choices that don't meet your wants and needs (as discussed in Step 1 of the financial planning process).
    3) Examine your options: After arriving, you've found that the movie was sold out. What are your options? Think about whether you want to buy tickets now for a later showing, go to another movie that starts around the same time, rent a movie to watch at home, etc.
    4) Weigh the pros and cons: Consider how your options meet your criteria. You may not want to wait a few hours until the next showing, and there is another movie you and your friends want to see that is playing now.
    5) Make your decision: Decide which option best meets your criteria. You decide to buy tickets for a movie that is playing now. (Of course, criteria can change quickly, especially in a simple example like this. For example, you may only want to see that particular movie and it is sold out for the rest of the day. As such, you may decide to skip the movie altogether and go play miniature golf nearby.)
    6) Evaluate results: After you have acted on a decision, discuss whether or not you made the right choice. Was the movie worth the money? What might have been a better thing to spend the time and money on?

  - Explain that when we make decision, we often make a choice between 2 things. This involves a trade-off that economists refer to as an "**opportunity cost**." In the above example, if you choose to see a movie that is playing at the same time as the sold out movie, the "opportunity cost" of the decision is that you did not see the movie that you originally intended to.

  - Have students work in pairs to go through the decision making process of buying a car. Have them fill out the "Stages of Decision Making" sheet. (You may want to encourage pairs to identify their own goals for step 1.)

- **Step 4: Create and Implement a Plan**
  - We discussed creating a financial plan in step 1. By now, students should be actively thinking about what their goals are and how they can stay on track to meet those goals. To spot check what students have learned to this point, ask them to complete the following writing assignment:

  - "You have been asked by a friend to provide advice about how to meet an intermediate-term financial goal. Write a letter to your friend in which you give advice about how a financial plan will help the person meet his or her financial goal. List specific steps they should take and things they need to consider when creating their plan. Be sure to mention factors that will affect the plan and strategies to help them stick to it."

- **Step 5: Monitor and Modify the Plan**
  - Explain to students that once they develop and implement a financial plan, they need to periodically check to make sure they are staying on track. The best way is to review plans and progress at regular intervals. Doing so will help them stay on course. Stress to students that plans are not necessarily set in stone. They will change with changes in priorities and criteria, and with unexpected events. When circumstances change, financial plans might as well.

  - Arrange students into “”family groups” of 1-4 students and distribute family scenario index cards (number of students in each group will be based on cards received). Tell family groups to think about what types of financial decisions they might need to make given the circumstances on their cards. Give groups 5 minutes to brainstorm and develop lists. After 5 minutes, ask groups to identify at least 2 potential unexpected events that might impact financial planning. When groups are finished, ask one person in each group to share their scenario and corresponding financial decision possibilities. Note similarities and differences among the groups.

Culminating Activity

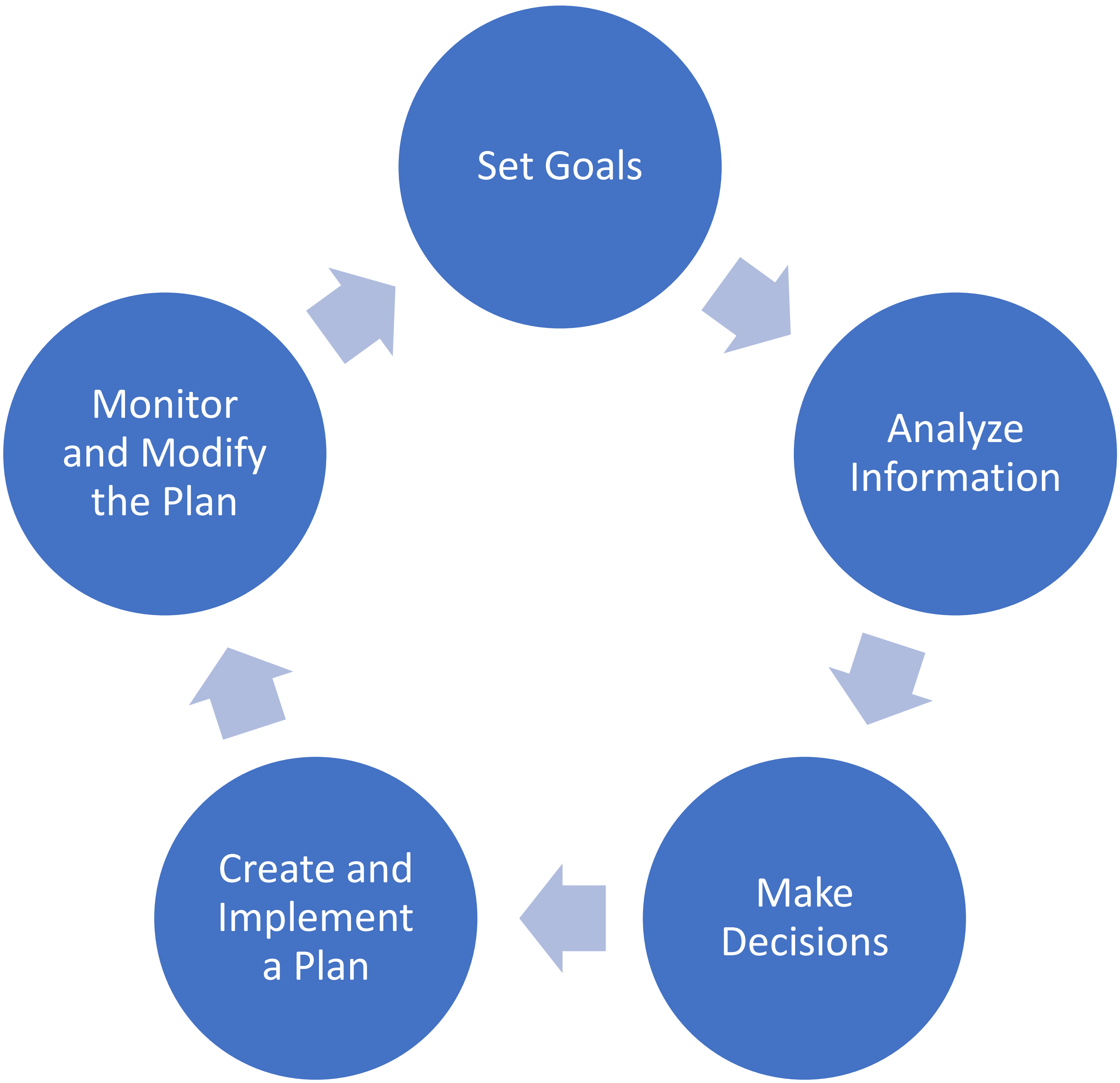
- Have students set a realistic short term financial goal that they think they should be able to reach within 2-3 weeks (remain sensitive to differences in socioeconomic backgrounds). After a pre-determined amount of time passes, have students explain whether or not they met their goal. If they did, ask them to explain how they appropriately planned to meet their target. If not, ask them to explain what obstacles they faced in reaching their goal.
- Have students keep a Personal Spending Record for the remainder of the semester. At the end of the semester, have students write an explanation of how they received and spent money as part of final exam or for extra credit.

TRUE

FALSE

Steps to

Financial Planning



SSource: National Endowment for Financial Education, High School Financial Planning Program

My Financial Plan

	Estimated Cost	How I Plan on Reaching Financial Goal/Timeline
Short-Term Goals		
Intermediate Goals		
EXAMPLE: Pay for trip to Charlotte to visit friend this summer (4 months away)	**$35—gas $50—food $100—entertainment (ticket to Bobcats game, Musical) Total: $185**	**-Save $40 from birthday check from Grandma -Save $5 a week from allowance ($5 x 16 weeks until trip = $80 -$15 for mowing Thompson's lawn x 2 = $30 -Miss out on 1 "movie night" a month until trip = $35**
Long-Term Goals		

Personal Spending Record

Week 1	**Income**	**Spending**
Day 1		
Day 2		
Day 3		
Day 4		
Day 5		
Day 6		
Day 7		
Week 2		
Day 1		
Day 2		
Day 3		
Day 4		
Day 5		
Day 6		
Day 7		

Stages of Decision Making:

1) Identify your goal
2) Establish your criteria
3) Examine your options
4) Weigh the pros and cons
5) Make your decision
6) Evaluate results

With a partner, go through the stages of the decision making process:

1) Identify your goal

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2) Establish your criteria

1. ____
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3) Examine your options

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4) Weigh the pros and cons

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5) Make your decision

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6) Evaluate results

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Family Scenarios

Newly married couple in 20s; rent home; two full time jobs; no car (live in city)	**Single parent w/ 2 children, ages 3 and 7; own home; full time job; monthly car payment**
Couple in 60s; one spouse self-employed, one working part-time; own home	**Couple in 40s w/ 2 teenagers, one of which is going to college next year; 2 monthly car payments**
Single in 30s; rent apartment; anticipate layoff	**Couple, both 18; just graduated; both have part-time jobs at mall; rent apartment; one car payment**