



General Financial Literacy Teaching Tips

STANDARD 3

This guide is intended to help teachers gain a clear understanding of the General Financial Literacy standards and objectives.

Background Knowledge:

Standard 3 is jam packed with essential, potentially life changing information. It encompasses topics such as credit, banking, identity theft, money management, and consumerism. As a teacher, you will spend more time teaching Standard 3 than any of the other standards.

Planning and maintaining a balanced personal budget could eliminate a lot of turmoil in one's life, if sound money management habits are formed and adhered to. Before making a personal budget, students should track their spending for 3-4 weeks to get an idea of their habits. A personal budget serves as a road map, a guide for spending and saving. Sometimes people, and maybe your students, feel uncomfortable when they hear the word budget. Minds can be changed! Having a way to track spending and saving guides those who are consistent to financial freedom.

Budgets include two main categories fixed expenses (amounts owed that do not fluctuate from month to month such as a mortgage or rent payment) and variable expenses (amounts owed that vary from month to month such as a utilities bill). A key to a successful budget is "Pay Yourself First" or "PYF." This principle teaches that whenever a person receives any money from a job, a gift, a windfall, or any other source, they need to put a portion of that money into savings. This is a habit that should be developed early in life. Payroll deductions for savings are a simple way to grow a savings account. The decision to save only has to be made once. Many people also use a change jar where they place their loose change at the end of each day. It is amazing how quickly that change accumulates giving the savers some extra money to use as they desire.

PYF encourages saving at least 10% of each check. Typically other percentage of income guidelines are as follows: Housing and utilities 30%, food and household 20%, clothing and personal items 10%, transportation 10%, saving and investing 10%, miscellaneous expenses 20%. When dealing with budgeting issues in class, please remember to use a third person scenario and never ask for personal information or specific personal income numbers.

Many tools are helpful in the world of budgeting. Computer programs, such as Quickbooks and Quicken shorten the time and paperwork. Keeping receipts and recording every transaction where money is spent, also proves effective. The envelope system is helpful for cash transactions and can be very helpful to high school students who may not have a checking account. The envelope system requires that the money involved is in cash, small bills are

helpful. The consumer labels envelopes with different categories of expenses, such as gas, entertainment, etc. The allotted money for the month is then put into each envelope. When money is taken out of the envelope for a purchase, the transaction is recorded on the outside of the envelope. When the money is gone, either spending stops, or cash can be transferred from another envelope. This simulates how to use a checking account: recording transactions, transfers, deposits and money management. It is critical that students understand how to reconcile a bank statement. Guide them STEP BY STEP, through the reconciliation process.

There are different institutions that lend money. Among them are banks, credit unions, savings and loans and consumer finance companies. There are several types of loans available. A *single payment* loan is a lump sum loan to be repaid at the end of a certain period of time. The *installment* loan is repaid with interest in series of payment. A secured loan is backed by something of value pledged to insure payment of the loan or collateral. Credit cards give you a lot of freedom but can also give you a lot of problems if you do not take it seriously and manage it properly. Allowing credit accounts to become delinquent or even worse, turning to bankruptcy as a way out of a dilemma dangerously damages your financial future. Emphasize to your students that if they do not have the money to pay for an item, it should not be purchased on a credit card.

Key to understand credit is learning about the various costs of using it-interest rates, fees, penalties, and even opportunity costs. These costs are critical factors in making good decisions about whether using credit is an appropriate option or not. Paying off the full balance on a credit card each month reduces the cost of using credit. Even paying a little more than the minimum amount can speed the repayment process and decrease overall interest charges. Co-signing on a credit contract is making a promise to that creditor or lending institution that you will repay the debt should the other signer default on the account. Co-signing for a debt carries serious obligations and can be disastrous if you sign for the wrong person.

Before credit is granted, consumers must prove to be credit worthy. Credit worthiness is determined before people are given the option to buy on credit. The guidelines used to determine your credit worthiness are contained within the 3 C's of Credit: Character - refers to a person's conduct and living habits, including where they have lived and how long they have worked for an employer, Capacity - the ability the person has to earn enough income to repay a loan, and Capital - what is owned by the person who wants credit, such as savings, investment, and property.

Spenders cannot simply buy on credit whenever they want. They have to establish a good credit standing or credit rating. A good credit rating is established over a period of time. Every time money owed is paid back on time, a credit standing is strengthened. Each time money is not paid on time, a credit rating is weakened. Businesses check a credit history every time a

person applies for credit, insurance, employment, and sometimes apartment leases. Based on a credit history, credit bureaus develop a credit report on an individual. Upon checking a credit report, banks or businesses can either grant or deny credit. Everyone who has ever applied for credit, a charge account, a loan, or insurance, or even a job, will have a credit record on file at a credit bureau. A credit report contains information about the individual's income, debts, and credit payment history. If a consumer is having a hard time getting their bills paid, he can call the lender to try to work out a modified payment plan. This may reduce the payments to a more manageable level. If students volunteer details about personal or family credit problems, recommend that they contact a credit counseling service.

Students should know and understand their rights and responsibilities to become smart consumers. Most of our rights are protected by federal and state laws. Unfortunately, many people are uninformed about consumer protection laws. In President John F. Kennedy State of the Union Address of 1962, a Consumer Bill of Rights was proposed including: *the right to safety, the right to choose, the right to be informed, and the right to be heard.*

During the early years of the twentieth century, Congress passed laws intended to assure consumers that products were safe and marketed honestly. Some of these agencies are the Food and Drug Administration (FDA), Federal Trade Commission (FTC), and Consumer Product Safety Commission (CPSC).

In more recent years, millions of Americans have suffered financial problems because someone else fraudulently used their identity to obtain credit or to access their financial accounts. This crime is known as *identity theft*. The best way to protect ourselves from identity theft is to avoid letting other people see your financial information. Although taking steps can reduce the chances of you becoming a victim of identity theft, there is no way to avoid this possibility entirely. For this reason it is important to always check financial statements carefully to be sure they are legitimate. Encourage students to store their Social Security cards, and all documents containing personal information, in a fire safe location at home. Never carry a Social Security card in a purse or wallet.

Risk management is a means of dealing with potential personal or financial loss. When the potential loss is large, most people prefer using insurance to share or transfer some of their risk. Risk itself comes in a variety of forms. Illness, disability, theft, accidents, and death are all risks we can protect against. Whether misfortunes are unexpected or the result of our own risky behavior, their resulting costs can be tremendous. Most people do not have the financial resources to cover them on their own. An *insurance policy* is a written contract detailing what an insurance company will cover, how much it will pay, and how much the insured will pay. The *premium* is simply the amount a person has to pay for an insurance policy. A *deductible* is the out of pocket amount of a loss that must be paid by the insured

before the insurance company will step in and pay the rest. Think of a deductible as “self-insurance,” or the amount a person is willing to pay for a covered loss before the insurance payments kick in.

- Disability insurance is insurance designed to pay a percentage of a customary salary or wages in the event of becoming disabled and not being able to work.
- Homeowner's insurance is insurance coverage for risks to a home such as fire or theft.
- Life insurance is designed to protect heirs or survivors after death. If a person is single or married with no children and has a spouse with a job that pays enough so his income is not needed, he may not need life insurance.
- The legal responsibility involved in a car accident is extraordinary. This is why automobile insurance is important to cover your losses is involved in an accident.

Many people think of estates as belonging only to the rich or elderly. However, the fact is, is that everyone has an estate. An estate is all property and assets owned by an individual. During working years, a common financial goal is to build an estate by acquiring and accumulating money for current and future needs. However, as people grow older, their point of view will change. Instead of working to acquire assets, they start to think about what will happen to their hard-earned wealth after they die. In most cases, people want to distribute that wealth among to their loved ones. That is why estate planning becomes import. Estate planning is the process of creating a detailed plan for managing personal assets to make the most of them while still living, and to ensure that they are distributed wisely after death. An estate plan involves various legal documents such as a will and a trust. A will is a legal declaration of a person’s wishes regarding disposal of his or her estate after death. A trust is an arrangement in which a designated person known as a trustee manages assets for the benefit of someone else.

Quizzes:

- [Standard 3 - Objective 1 Quiz \(doc\)](#)
- [Standard 3 - Objective 2 Quiz \(doc\)](#)
- [Standard 3 - Objective 3 Quiz \(doc\)](#)
- [Standard 3 - Objective 4 Quiz \(doc\)](#)
- [Key to All Quizzes \(pdf\)](#)





Terms:

- Budget
- Checking account
- Credit
- Installment loans
- Service credit
- Revolving credit
- Late fee
- Bounced check
- Finance charge
- Interest
- Closing costs
- Bank
- Credit union
- Investment broker
- Loan agency
- Credit worthiness
- Lender
- Consumer protection laws
- Identity theft
- Grace period
- Payment penalty
- Ponzi scheme
- Insurance
- Whole life insurance
- Will
- Trust

Attention Getters/Hooks:

Group Juggle:

Objective: Demonstrate to students how they can handle and make sense of multiple tasks occurring at the same time.

Instructor Reference Material: From a cash management perspective, adults juggle incoming paychecks with outgoing bills. These bills arrive at different times of the month or year, sometimes expected and sometimes not! This activity draws a physical analogy between juggling balls and juggling money to make ends meet. The instructor will need a container holding up to 12 small balls to conduct this activity.

Instructor: Form a circle of 6 to 12 students with the instructor. Instructor calls out a student's name and tosses him/her a ball. The student catches the ball, calls out another student's name and tosses the ball to him/her.

Students repeat the pattern for all students in the circle until the ball is eventually tossed back to the instructor.

Once the cycle is complete, check for understanding. Students are really only responsible for remembering who tossed them the ball, and to whom they are to toss the ball. Repeat the exercise at a faster pace.

Once the pattern is set, repeat the exercise a third time, but the instructor introduces additional balls, up to a dozen. Students call out the person's name, toss the ball, and wait to receive another one. The instructor starts the exercise and when a ball is tossed back to the instructor, remove it from the circle.

Students: Hear their name called out, catch a ball, call out another person's name, and toss the ball to him/her. Students always receive the ball from the same person and always toss the ball to the same person.

Instructor: Ask the following questions.

- How were you able to keep the pattern going?
- How is this like the rest of your life (all the activities)?
- How do you manage your money when you have all kinds of opportunities to spend it (at the mall, eating out, online)?