

STANDARD 4

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

Background Knowledge:

Standard 4 focuses on saving, investing, and retirement planning – all subjects that your students might not be 100% convinced are important or necessary at this point in their lives. Do you know of any teenager who is thinking of or planning for retirement? For high school students, retirement seems so far in the distance many believe it will never happen. At the same time, many educators may not feel confident teaching students about investing. While this standard may be challenging to teach, it can also be the most rewarding for our students. The Standard 4 E-Charts are full of interesting and engaging ways for you to present this to your students.

Some students may have already developed the habit of saving money, others may find a place to spend every penny they earn, and a few have no source of income. Regardless of their savings habits, your students need to learn or be reminded of the importance of saving a portion of any money they earn. Unfortunately, we live in a society where saving money is not a popular activity. In 2010 American's saved just over 6 percent of their income. That number pales in comparison to other developed nations (the Chinese save 30 percent of their income). Whether it is because of "Keeping up with the Joneses," instant gratification, the ease of using plastic or trying to maintain a certain lifestyle, your students may have a hard time seeing the necessity of saving instead of spending. Saving money is hard!

Why is saving money so important? Most financial experts recommend having an emergency fund equal to three to six month's salary. This emergency fund can be used to deal with all of the unexpected events that seem to happen so often in life. In fact, *Money Magazine* states that 75% of families will have a major negative financial event (\$10,000+) in any ten-year period. Another reason to save is for a purchase to be made in the future. Many of your students want to buy a nice car in a few years. They can start saving now to make that dream a reality. It is also nice to have some money saved when something new and exciting (like a new cell phone) comes along.

Just as you will have students that have become experts at saving money, you will probably have students who are experienced investors. If you do not feel comfortable teaching your students about investing this might be a good time to invite a guest speaker into your classroom. There are a lot of bankers, stockbrokers, or investment advisors who would be willing to share their expertise with your students. Remember, your goal as a GFL teacher is not to turn your students into investment professionals, but to take away some of the mystery and misunderstandings your students may have about investing.

At the minimum, your students should understand:

- Different investment vehicles (stocks, bonds, mutual funds, real estate, collectibles)
- Investment strategies (buying on margin, short selling, diversification, etc.)
- The difference between long-term and short-term investments
- Government protection for investors (the regulatory pyramid)
- Sources of investment information (prospectus, annual reports, etc.)
- Ways to buy and sell investments (discount and full-service brokers, etc.)

The Stock Market Game is another excellent tool that allows your students to apply the things they have learned about investing. "Your students will think they're playing a game. *You* know they're learning economic and financial concepts they'll use for the rest of their lives" (www.smgww.org). Check the Professional Development page of the FITC website for details on how to register for an expense paid teacher training for the Stock Market Game, offered every spring and fall.

The third objective in standard four covers some important concepts that will help your students understand the difference between saving and investing. Return, risk, liquidity, inflation, and the time value of money are all taught in this objective. For example, where would be the best place to save or invest your money if you are planning on a European vacation next summer? What if you want to start putting money away for your retirement? What type of return do you hope to achieve? What type of risk are you willing to take? How liquid does the savings or investment need to be? It makes a difference where you put your money.



That brings us to retirement planning. You might hear comments such as these from your students: "I'm only 17. I won't retire for 50 years. I have plenty of time." "My grandparents are still working and they're old. I'm sure I'll have to work until I die." Or, this good one: "I know the world will end long before I retire." These comments show that teaching a 17 or 18 year-old about retirement planning can be a challenge.

Your students should understand how company pensions are a dying breed in America today. That puts the burden of planning and investing for retirement on the shoulders of the individual. Is Social Security enough to live on? Will Social Security still be around when our students retire? How much does Social Security pay each month? These are important

questions to discuss with your students since many of them may be thinking that they will live on Social Security when they retire. They should understand that the retirement investment options for most people today include a 401(k) or 403(b) or a traditional or Roth IRA.

The key (and the reason we are teaching retirement planning to teenagers) is to start early. When you spend some time showing your students the miracle of compound interest, help them to see that they have an advantage that you, their parents and grandparents, and even their older siblings don't have – TIME! Time is their ally right now. If they start saving and investing for retirement when they are young they will be well prepared when the day of retirement finally approaches. It is life changing!

Quizzes:

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

Terms:

- | | | |
|--|--|---|
| <input type="checkbox"/> 401 (k) | <input type="checkbox"/> Dollar Cost Averaging | <input type="checkbox"/> Pension |
| <input type="checkbox"/> Annual Report | <input type="checkbox"/> FDIC | <input type="checkbox"/> Prospectus |
| <input type="checkbox"/> Bonds | <input type="checkbox"/> Full-service Broker | <input type="checkbox"/> PYF (Pay Yourself First) |
| <input type="checkbox"/> Buy and Hold | <input type="checkbox"/> Investment | <input type="checkbox"/> Real Estate |
| <input type="checkbox"/> Buying on Margin | <input type="checkbox"/> Investment Advisor | <input type="checkbox"/> Regulatory Pyramid |
| <input type="checkbox"/> Collectibles | <input type="checkbox"/> IRA | <input type="checkbox"/> Return |
| <input type="checkbox"/> Compound Interest | <input type="checkbox"/> Liquidity | <input type="checkbox"/> Risk |
| <input type="checkbox"/> Discount Broker | <input type="checkbox"/> Mutual Funds | <input type="checkbox"/> Roth IRA |
| <input type="checkbox"/> Diversification | | <input type="checkbox"/> Rule of 72 |



- Savings
- Short Selling
- Social Security
- Stocks
- Time Value of Money

Attention Getters/Hooks:

- Play "Don't Stop" by Fleetwood Mac. Ask the students to write down ideas on how this song relates to saving, investing, and retirement planning.
- Read some children's literature, such as "Alexander Who Used to be Rich Last Sunday" to the class. Use the worksheet available at FITC to guide a discussion on what Alexander wanted to save his money for and where he ended up spending it. How does that relate to your student's saving experiences?
- Show the video about the 14 year-old investor, [Damon Williams](#).
- Play the card game Pit.
- Use a water jug, ice, and water to teach the concept of liquidity (ice is not "liquid" because it takes time to access, same with assets that are hard to get the cash from, such as real estate. A savings account or checking account is liquid because it is easy to access, same with the water dripping from the jug.
- Show the PBS Frontline report, "[Can You Afford to Retire?](#)" The first segment which is about 7 minutes is plenty and a good introduction to disappearing pensions.
- Discuss "[Start on Your First Million at 16](#)" with your students.