Spring 2006

MoneySense

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Western Washington University

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MoneySense

Angela Martin
Honors Senior Project
June 9, 2006
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MONEY$ENSE

PURPOSE
Money is something that permeates everyone's daily lives. No matter who you are, rich or poor, white or black, college educated or a high school drop out, everyone has to deal with money at some level. Getting a job, opening a savings account, budgeting for one's monthly bills, and using a credit card are activities that most men and women will experience at some point in their lives. Everyone has to deal with money but few actually receive any type of formal training or education on exactly how to do these things.

Learning by ones mistakes is common when it comes to financial matters but racking up a huge credit card debt and getting over a destroyed credit score are hard to recover from. Although I never explicitly took a personal finance course myself, as an accounting major I have been exposed to a variety of finance, economics, and business courses over the last four years and accordingly have gained a solid foundation in financial matters. So, for my senior project I partnered with Beta Alpha Psi, the accounting club on campus, to lead a series of seminars on personal finance topics and help educate the Bellingham community.

Financial literacy is a real problem in the United States. Hoping to do my small part to combat this issue, MoneySense was developed as an answer to this problem. In the end, I led six unique seminars on campus, gave five different high school presentations, taught in one college classroom, led a session in the dorms at Western, and hosted a breakout seminar at the Head Start Health and Social Services Fair. Well-received by the community, MoneySense was publicized on the radio, featured in two articles in the Bellingham Herald as well as covered in the Western front, and was even recognized by Karen Morse, Western's president, as a great program. Dr. Morse said MoneySense was something she had wanted the business department to do for years and that she was very pleased when we instituted this program last winter.

Over the course of the last year I made a lot of great contacts in the community and ultimately ended up educating over 400 people with this program. A great success, MoneySense will continue in the future as an annual program run by Beta Alpha Psi. To ease the transition process I helped prepare a binder with my co-coordinator, Alexa Volwiler, detailing the steps in the programs process. This binder is on file with the accounting department.

Since this was MoneySense's inaugural year a good portion of the time that went into this project was spent developing the presentations and setting up contacts in the community. Accordingly, the remainder of this portfolio contains PowerPoints, flyers, and e-mail templates of what can be used in the future to continue this program with ease. Forging the initial path, with the documents and the explanations provided below anyone should be able to run this program and help educate the community on basic financial issues.
PORTFOLIO ITEM DISCUSSIONS

Overview

PowerPoint Slides: An Overview of my Project

This PowerPoint provides a good overview of my project as a whole. Using this slide show as an aid to my final senior project presentation, it details the process I went through in developing the MoneySense program.

Learning to Teach

NCEE Materials and Training Day

Pamela Whalley was an indispensable asset in regards to making MoneySense a reality. Mrs. Whalley is an economics teacher at Western as well as the President of the Washington Council on Economic Education. As the President of this organization, Mrs. Whalley is responsible for training teachers in Washington State on financial topics for use in K-12 classrooms. Working with the National Council on Economic Education (NCEE), she leads seven-hour training sessions several times a month that explain how to teach this material. Providing teachers with lesson plans specifically geared to the grade and comprehension level of their students, the NCEE material is classroom tested and easy to teach. Interactive, entertaining, and highly informative, the curriculum Mrs. Whalley provided was fantastic. Attending one of her training sessions on November 8, 2005, after walking away with the materials, a CD, and a new-found confidence I was ready to begin the MoneySense program. Making connections with a variety of teachers in the local community, this also proved to be helpful down the line when I taught in high school classrooms. Using the Millionaire game as an ice breaker, the Tale of Two Savers lesson plan to get students excited about saving, the Cash or Credit lesson to warn them of the power and pain of credit cards, and the Living within their Means lesson to get students to think about budgeting, these four lessons worked especially well in the high school setting. Relevant and interesting, these lessons were always well received.

Forming a Committee

With a project the size and scope of MoneySense I knew I would not be able to do everything I wanted to if I was working alone. So, I formed a committee and enlisted the help of my fellow accounting students to help get MoneySense up and running. Primarily working with one other student, Alexa Volwiler, between the two of us we prepared all of the presentations, made all of the arrangements with teachers to come into classrooms, obtained a $1000 budget, printed handouts for each week’s presentation, and led fourteen separate sessions. The rest of the committee really helped with the marketing aspect of our program—hanging flyers, giving short classroom presentations the first week of school winter quarter, and creating a website for our program so students could sign up ahead of time for each week’s lesson.

Marketing

Classroom Visits: Asking teachers to let us talk about our program

I figured that one of the most effective ways to spread the word about the MoneySense program was through classroom presentations. Sending out e-mails to 100 and 200 level GUR professors, we made arrangements to come into nearly 30 classrooms the first week of school. Giving a brief overview of our program and letting students know the dates, times and topics of each session, this marketing venue proved to be quite successful. Our first session attracted about twenty-five students—a success in my opinion considering it
was held at 10:00 in the morning on the first Saturday back from winter break. Advertising free breakfast, free materials, and a good time, we passed out flyers to the students at the end of the classroom visit so they would have something to refer to for information about future sessions.

**MoneySense Flyers and Handouts**
Alexa Volwiler, my co-coordinator, designed the flyers and handouts that we passed out during the classroom visits and hung up around campus. Listing our programs itinerary and giving information about the date, location and times, I was amazed how effective these flyers turned out to be in attracting an audience. Posting the flyers on community boards, on the back of bathroom stalls, and anywhere we could find a free space on campus, it always amazed me when I would see a MoneySense flyer sticking out of a students bag or writing the dates down in their planner (I actually saw this happen in one of my classes). Periodically re-hanging these flyers on campus, after one of these major marketing pushes I was actually told by one of my committee members that her marketing teacher in the business school took one of my flyers, held it up in class, and said that it was a perfect example of good marketing. Highlighting the words free in bright yellow marker and posting our sign on the back of a bathroom stall, I was told that this was a very innovative idea.

**High School Sessions**

**Contacting the Teachers**
One of the most difficult aspects of this project was setting up dates and times with local high school teachers to come into their classrooms and give a guest lecture. Pamela Whalley, the woman who supplied us with the NCEE materials, also gave us a list of names of teachers in Whatcom County. All of the teachers on Mrs. Whalley’s list had come to her NCEE training day before so were familiar with the material. Contacting seven different high school teachers in the Bellingham school district, ultimately three teachers set up dates and allowed me to teach a couple of lessons in their classrooms. I have included a list of the names and contact information for all of the teachers involved in this project.

**Presenting in the Classrooms**
Preparing overheads of the four lessons discussed earlier and a shortened PowerPoint presentation from the college budgeting and savings seminar, I tailored my presentations to the needs and demands of the students and classroom. If the room had a computer and a projector I taught with the PowerPoint I had prepared; otherwise I used handouts and overheads. The comprehension level, age, and exposure of the students to the material I was covering also dictated what lessons I ultimately taught. Picking my lessons and the pace of the lecture according to the students needs, this was a very challenging but rewarding experience.

One of my presentations, the one at Emerson high school, came about because of the articles about MoneySense in the Bellingham Herald. Estrella de Leon, an AmeriCorp student, read one of these articles and asked me if I would like to teach a couple of lessons to students at her school. Ms. Leon was responsible for arranging guest lecturers to come down to Emerson and teach sessions on topics like budgeting and savings so when she asked me if I wanted to come I jumped on the opportunity. An alternative high
school, I wasn’t quite sure what to expect from the students. The students I taught ranged from sophomores to seniors and each had a very different grasp not only on finances, but on basic mathematics in general. Beginning with the Millionaire Game, segueing into a Tale of Two Savers and wrapping up with Living Within their Means, after teaching this class I came to the fundamental realization that everyone, no matter what their background or socio-economic status, has to deal with the same issues. Reconfirming my original mission, this session in particular stands out in my mind as a demonstration of the power of education. Teaching the same lesson plan to the senior economics students at Bellingham High School (a rather affluent group of students), both groups ran into the same types of problems calculating budgets and displayed the same type of shock when I read off some of the millionaire statistics and showed them the power of compound interest. Both groups of students were confronted with the same types of issues; both groups realized that money concerns everyone and getting a solid foundation in personal finances is important.

Head Start Health and Social Services Fair
Another positive connection that was made because of our extensive marketing campaign was the opportunity to lead a break out session at the Head Start Health and Social Services Fair. Alicia Vohs, one of the women coordinating the program, saw the articles in the Bellingham Herald about MoneySense and asked me if I would be interested in leading a session on savings and budgeting to the parents that were attending this fair. Only slightly modifying the savings and budgeting PowerPoint that I used in both the high schools and the college setting, I realized once again how universal money issues are. Although I had to change the examples and modify my language for the adults I was teaching to, in the end I gave them a presentation similar to one I would have given to their children. Getting the tools to deal with money in a responsible and educated way is essential if one wants to be successful in today’s market economy. This session reconfirmed my convictions in the power of this program once again.

College Segment
Fun and Introduction to Personal Finance
This session was our introductory session for the college half of the program and was held on January 7, 2006. We wanted to start out on the right foot and peak people’s interest by playing an interactive game with our audience. Passing out true and false cards to pairs of students and one “M” millionaire card, we began our first session with this game. The millionaire game is played by reading a statement and then asking partners to deliberate on whether or not they think what I said is true or false. After about two minutes have passed I ask everyone to prepare to hold up their card, T or F, and if they are exceptionally confident about their answer they can also hold up the millionaire card to score additional points. Counting down, I asked everyone to hold up their cards simultaneously and if they were right they received five points and if they were wrong they lost five; if the millionaire card was held up as well the participants gained or lost ten points accordingly. The millionaire game is a great ice breaker to get people talking and sharing their thoughts about money with the group. Keeping a running tally of their points, the top two groups were given prizes. Moving on, the rest of our first session covered concepts like opportunity costs, scarcity, and attitudes about money. Concluding with an overview of different banking and checking options available in the Bellingham
community, we wrapped up with a demonstration on writing checks and balancing your checkbook.

Budgeting and Savings
This session yielded our largest turnout with the room packed with about thirty-five students. Like the title suggests, this session covered budgeting and savings. Beginning with a discussion of values, we suggested that you can't determine what to save and budget for if you don't know what is important in your life. We asked our audience members to stop and think for a moment about what they felt were the most important things in their lives. Many suggested family, friends, their education, their health, their religion, and their jobs. Then we asked them what they spent their money on and they said that most of their earnings went to entertainment, food (both groceries and eating out), alcohol, shopping, rent, and tuition. It can be quite a shocking experience to see the degree of disconnect between what one says is important in his/her life and what one actually spends his/her money on.

After this lesson we moved on to the planning and goal setting process. All savings and budgeting endeavors require careful planning and forethought, but the goal setting process we taught can be used in any situation or discipline. Next, we discussed the components of a budget and the importance of actually keeping a record of your expenses. Talking about the differences between fixed expenses, periodic expenses, and variable expenses we discussed strategies for making your dollar go further. Finally, we ended this session by talking about the importance of saving—early and often. Savings grow based on timing, rate of return, and principle. If one understands these three components it is easier to plan for major purchases and retirement.

Credit Cards, Credit Scores and Identity Theft
This session was the companion session to the previous week's presentation. After learning about the power of compound interest, time, and size of ones principle and how it can help one's nest egg grow, this session talked about the same three components and how they can lead to pain, misery, and life-long debt if one isn't careful. Introducing the idea of credit and many of the terms used to describe this topic, we began with the Cash or Credit exercise I used in some of my high school presentations. This exercise was one of my favorite lessons to teach because it illustrated both how to make credit work for you and how credit can easily work against you. The moral of this lesson is to pay off your credit cards in a timely manner and you will reap the rewards accordingly; but if you don't do this and only pay the minimum balance, the purchases you make on credit will haunt you for years and years. In the Cash or Credit story, Caitlin buys a stereo for $800 on her 18% APR credit card and only pays the minimum balance every month. She never purchases anything else and only makes payments towards the stereo (highly unlikely in the real world, most people continuously add charges every month). In the end, it takes Caitlin almost 15 years and $1234 to pay for the stereo. This figure shocks me every time I read it but the most shocking fact of all is that this really happens every day. The Federal Reserve reports that 95% of college students have credit cards and that each student has an average of four cards with a total balance of around $4,776. After this lesson and the presentation of these facts I don't know how people continue to charge everything on money they don't have. Moving on to credit card offers and credit scores, we reviewed a couple of sample offers and identified important terms and concepts.
Reading the fine print is imperative before ever accepting a contract, especially with credit cards.

The second half of this session was hosted by Peggy Onustack, Shawn Carlson, and Jennifer Deger. They discussed the growing presence and threats of identity theft. Stating that statistically one in three people will become victims of identity theft in their lifetimes, all three presenters suggested that the conditions surrounding identity theft get worse and worse everyday. Mrs. Onustack and Mr. Carlson work at US Bank and have seen this phenomenon grow and grow. Relating some of the new ploys and giving tips on how to avoid becoming a victim, their presentation was intriguing.

Jennifer Deger, a CPA from Clark Nuber, was a victim of identity theft and shared her story with our group. An accountant, she was described herself as a control freak that was fairly methodical about destroying sensitive personal information, yet somehow, even she fell victim to this scheme. A rising problem, the guest speakers’ presentation on this topic was compelling.

**Living on Your Own**
This session, like the week before it, was also split into two halves. Alexa and I talked about finding housing in Bellingham, the decision to live with roommates or alone, your health, a quick overview of savings/budgeting, and then we played a game demonstrating the benefits and costs of insurance.

The second half of the session was led by Robert Olson, a professor at Western and a public county defender for Whatcom County. Specializing in landlord-tenant disputes, he gave a presentation on renters’ rights. RCW 59.18, the Washington Landlord-Tenant Act, grants renters certain basic rights that a landlord must abide by. For more information on this act and what renters insurance does or does not cover we referred our audience members to the following website: www.BellinghamRentersRights.com. I helped co-create this website with my group members in MGMT 495. There is an active link from the MoneySense website to the renters’ rights page as well. The MoneySense website is: http://www.cbe.wwu.edu/clubs/bap/MoneySense/home.asp?page=0.

**Investing**
This session was turned over entirely to the professionals. Inviting Peggy Onustack and Shawn Carlson from US Bank back for the first hour of this session, they discussed savings accounts, certificates of deposit, and briefly touched on mutual funds.

The second half of the hour was led by Michael F. Ryan, the President of Waycross. Waycross is an investment management company headquartered in Bellingham. Mr. Ryan covered information on the typically higher yield but higher risk investment vehicles. He talked about the different types of mutual and index funds, the general return of the stock market over the long term (about 11.5%), and what sort of companies provide help for getting you started in investing (without charging huge commissions). His presentation was very interesting and I was glad that we let him tackle the more difficult questions that arose in this discussion. This session attracted a more diverse and older crowd compared to our previous sessions. Alexa and I know the basics about the different types of investment options but we wanted to make sure everyone’s questions
could be completely and fully answered with up-to-date information—that's why we invited Ms. Onustack, Mr. Carlson, and Mr. Ryan.

Taxes & Entrepreneurship

Finally, for our last session, we again invited professionals to come and take the reigns. Although I have taken ACCT 343 (Individual Tax) and volunteered at Tax Aide (a program where students are trained in tax law and then assist community members in filing their returns), both Alexa and I thought it might be more appropriate to invite our local accounting firm into our program and let them cover the taxes section. Asking Kelly Visser at Moss Adams LLP if she knew of anyone that would be interested in leading a two-hour session on taxes, she immediately said yes and got back to us with three names: Todd Packard, Arthur Bichler, and Rob Gilfillan. Todd Packard has his MBA and MFP and specializes in business failures and reorganizations at Moss Adams. So, for our session, he talked about becoming an entrepreneur and how to open your own business. This was a very entertaining, informative, and useful presentation. When he asked our audience members how many of them would like to open their own business someday a surprising number raised their hands.

The second half of the session was led by Arthur Bichler and Rob Gilfillan—two CPA’s and tax professionals at Moss Adams Bellingham. The focus of their presentation was on filing status, credits, and deductions available for students. They covered the Hope and Lifetime Learning credits, discussed the student loan interest deduction, talked about the tuition and fees deduction, and demonstrated the effects of scholarships and grants on taxable income. This session was a good final piece for MoneySense to end on.

Beta Alpha Psi Competition

Every year Beta Alpha Psi holds a regional competition in the Pacific Northwest and invites all of the college chapters within this geographic area to attend. This year the competition was hosted at the University of Washington. Preparing a ten minute presentation on MoneySense for the financial literacy best practices competition, Alexa and I faced five other schools and placed first amongst everyone. Winning the best practices competition, we also won the opportunity to present our program at the national competition in Washington DC this summer. Outlining how to begin a program like MoneySense on our website, we hope that by directing other chapters to our homepage when we talk at nationals will encourage other chapters across the country to start up a program like MoneySense in their own communities. Like I said before, MoneySense is going to become an annual program at Western, and hopefully, after we present to BAP students from across the nation, it will get picked up in other schools as well.

CONCLUSION

MoneySense was a great final project because it synthesized my desires to teach and my background in business and finances. A great success overall, I am very happy with our results. Next fall I am starting my job at Moss Adams in the Bellingham office so I will still be around during the winter to assist the new presenters in keeping the MoneySense program alive.
The Problem
In a 2005 study designed to evaluate adult and student understanding of basic economics:

- 60% of high school students and over 25% of adults received a failing grade.
- Only half of the high school students surveyed said that they had been taught economics in school. [1]

More young people filed for bankruptcy than graduated from college in 2001. [2]

The Solution
MoneySense

- A series of seminars and direct classroom presentations designed to educate students on basic financial issues
- Classes were held at both Western and in the local high schools

Where do you start?
• Undertaking a project as grand in scope as MoneySense is not easy to do
• Initially we began by gathering materials and information on-line
• Eventually we were introduced to Pamela Whalley, President of the Washington Council on Economic Education
• Pam Whalley provided us with materials from the NCEE, contact information for local high school teachers that may be interested in our program, and invited us to attend a training day to learn how to teach the NCEE materials

Learning to Teach
• Tuesday, November 8, 2005 I attended a seven hour training session covering how to teach the Financial Fitness for Life materials
• While at this seminar I networked with local teachers and informed them of the MoneySense program
• Pamela Whalley led this workshop

Forming a Committee
Total Committee
Members: 19
BAP Members: 18
Non-BAP
Members: 1

Some Members of the MoneySense Committee
Attracting Attendance

Hung Posters:
- On campus bulletin boards
- In all of the dorms and the VU
- At Whatcom Community

Passed out flyers

Made brief classroom presentations

Free Breakfast

Held a raffle every week for "Munch Money" in

MoneySense Website

http://www.coe.wwu.edu/bsa/MoneySense/home.asp

- Itinerary
- Sign-ups
- Information
- Directions
- Our purpose
- Quick Facts
- Contact Information
- Links for more information

Preparing the Presentations

- Used materials from the National Council on Economic Education (NCEE), the Northwest Education Loan Association, and a variety of governmental sources
- Created presentations that would be informative and interactive
- Prepared handouts and materials for students to take home each week

College Seminars

Six Sessions

Held on WWU campus, Bl 234

January 7: Fun and Introductions to personal finance
- Media messages about money and consumerism
- Financial resources on campus and around town
- Banking and checking accounts
January 21: Budgeting and savings
- Living within your means
- Importance of saving money
- Saving for the future: major life expenses and retirement
January 28: Credit cards, credit scores, and ID theft
- Guest speakers: Peggy Onustack and Shawn Carolan (US Bank), Jennifer Deppe, CPA (Clark Nuber)
- Shopping for credit cards
- Consumer protection
- Using credit wisely
- Protection against ID theft online and offline

College Seminars: Overview

Prepared the Presentations
February 4: Living on your own
Guest speaker: Robert Olsen (WWU)
- Budgeting for your lifestyle
- Financial questions to ask when looking for housing
- Financial lessons about roommates
- Renter's rights

February 11: Investing
Guest speakers: Michael Ryan (Waycross), Peggy Onustack and Shawn Carlson (US Bank)
- Types of investments
- Setting investment goals

February 25: Taxes and Entrepreneurship
Guest speakers: Arthur Bichler, CPA, Rob Gilfillan, CPA, and Todd Packard, MFP (Moss Adams)
- Reasons for taxes
- Tax strategies
- How and why to become an entrepreneur

College Seminars: Overview

Feedback from Participants
“Very well done. Highly informative. Interesting, relevant, and highly indispensable.”
—Marilyn Stoops, age 53

“Students don’t always understand the costs of what they buy. This discussion will help them learn about opportunity costs.”
—Randall Ragsdale, WWU junior

High School Presentations

Planning
- Exchanged e-mails with several local high school teachers
- Arranged dates and times to come in to their classrooms and teach
- Designed presentations specifically for the age and degree of exposure the audience had to the material

Execution
- We went into high school classrooms and taught the NCEE material directly
- Each presentation was tailored to the needs of the students
  - Budgeting, saving, and a basic understanding of credit is essential if you want to succeed in life, no matter what your background is
- Goal: To use our limited classroom time to teach the most important, relevant lessons and give students something to think about for the future

Total Time Spent

College Seminars
- BAP committee members and chairs:
  - Total of 220 hours in initial planning
  - Average of five hours each week in execution (30 hours in total)
  - Two hours total spent in the first two weeks visiting college classrooms and distributing flyers
- Non-BAP member:
  - Designed a MoneySense website
  - Spent a total of 10 hours creating and updating the site

High School Presentations
- Chairs spent 40 hours in planning
- Members spent 20 hours preparing the materials
- BAP members gave 25 total hours teaching the in the classrooms
**Combined Results**

- Wide-spread recognition
- Reached 57 different college students through our seminars
  - Many participated in more than one session
- Taught in 5 high school classrooms and one college class
  - About 30 students in each
- Led a breakout session at the Head Start Health and Social Services Fair
- In total, we reached almost 400 participants

**The Future of MoneySense**

- MoneySense was well received by the community and overall was a great success
- The demand for a program like MoneySense is not going away
- MoneySense is going to become an annual program coordinated by our Assistant Treasurer

**Beta Alpha Psi Competition**

- We presented our project at the BAP regional competition on Saturday, April 8th
- Placed first and will now have the opportunity to present at nationals in Washington D.C.
- We are in the process of updating our website so other chapters can adopt a similar program

**A Little Help**

- **WWU Contacts:**
  - Pamela Whalley, director of the Center for Economic Education, President of the Washington Council on Economic Education
  - Paul Cocke, Assistant Director, Office of University Communications
  - Ronna J. Biggs, Coordinator, Programming & Leadership Development
  - Willy Hart, University Dining Services
  - Eric Johnston, New Student Services
  - Du-Ace Manning, Assistant Director of New Student Services/Family Quesrd
  - Marty Hitchcock, Department of Accounting
  - WWU Professors that let us give classroom presentations
- **Community Contacts:**
  - Brian Daniels, Bank of America
  - Kristin Niehof, Whatcom Dream
- **Financial Assistance:**
  - Clark Nuber
  - Private donor

**MoneySense**

Thank You
Western Washington University
Millionaire Game

1. Most millionaires are college graduates.  
   **True.** Four of five millionaires are college graduates. Eighteen percent have Master’s degrees, eight percent law degrees, six percent medical degrees, and six percent Ph.D.s.

2. Most millionaires work fewer than 40 hours a week.  
   **False.** About 2/3 of millionaires work 45-55 hours a week.

3. More than half of all millionaires never received money from a trust fund or estate.  
   **True.** Only 19 percent of millionaires received any income or wealth of any kind from a trust fund or an estate. Fewer than 10 percent of millionaires inherited 10 percent or more of their wealth.

4. More millionaires have American Express Gold Cards than Sears cards.  
   **False.** Only 28.6 percent of millionaires have American Express Gold Cards while 43 percent have Sears credit cards. Only 6.2 percent of millionaires have American Express Platinum Cards.

5. More millionaires drive Fords than Cadillacs.  
   **True.** Ford is preferred by 9.4 percent and Cadillac by 8.8 percent. Lincoln comes in third at 7.8 percent. Only 23 percent of millionaires drive a current-year (new) car.

6. Most millionaires work in glamorous jobs, such as sports, entertainment, or high tech.  
   **False.** A majority of millionaires are in ordinary industries and jobs. They are proficient in targeting marketing opportunities.

7. Most millionaires work for big Fortune 500 companies.  
   **False.** About three out of four millionaires are self employed and consider themselves to be entrepreneurs. Most of the others are professionals, such as doctors, accountants, and lawyers.

8. Many poor people become millionaires by winning the lottery.  
   **False.** Few people get rich the easy way. If you play the lottery, the chances of winning are about one in 12 million. The average person who plays the lottery every day would have to live about 33,000 years to win once. In contrast, you have a one in 1.9 million chance of being struck by lightning. A pregnant woman has one chance in 705,000 births to have quadruplets. How many sets of quadruplets do you know?

9. College graduates earn about 65 percent more than high school graduates earn.  
   **True.** In recent years, the average college graduate earned 66 percent more than the average high school graduate did. People with professional degrees earned 150 percent more than high school graduates did.
10 If an average 18-year-old high school graduate spends as much as an average high school dropout until both are 67 years old, but the high school graduate invests the difference in his or her earnings at eight percent annual interest, the high school graduate would have $5,500,000.

10. True. Of course, a normal person would spend some of the difference, but it is a dramatic illustration of how valuable a high school diploma is. The difference in earnings between a high school graduate and a high school dropout is $8000 at age 18. The illustration assumes the difference increases by 1.5 percent each year and that the difference is invested at eight percent interest each year.

11 Day traders usually beat the stock market and many of them become millionaires.

11. False. Recent studies show that 80 percent of day traders lose money.

12 If you want to be a millionaire, avoid the risky stock market.

12. False. Long term (starting in 1926 and including the Great Depression), the Standard & Poor’s 500 Stock Index has increased at about an 11 percent compound annual rate of return, exceeding the return on any other investment. Of course, there is risk. The stock market has down years, and there is no guarantee of an 11 percent return in the future, especially in the short run. In contrast, the long-term return on risk-free U.S. government securities during the same period ranged from five to six percent. The actual return depended on the term of the bond. Another way of looking at this is that $1.00 invested in the S&P 500 on January 1, 1926, was worth $1,828 on December 31, 1997. One dollar invested in long-term government bonds during the same period was worth $39 on December 31, 1997. It probably paid to take the additional risk of buying stocks.

13 At age 18, you decide not to smoke and save $1.50 a day. You invest this $1.50 a day at eight percent annual interest until you are 67. At age 67, your savings from not smoking are almost $300,000.

13. True. Because of the power of compound interest, small savings can make a difference. It pays to resist temptation and live below your means.

14 If you save $2000 a year from age 22 to age 65 at eight percent annual interest, your savings will be over $700,000 at age 65.

14. True. Because of the power of compound interest, the earlier you begin saving, the better. Regular saving will make you a millionaire, even if your salary is modest.

15 Single people are more often millionaires than married people.

15. False. Most millionaires are married and stay married. By contrast, divorce is a gateway to poverty. Financially speaking, divorce is something you want to avoid, particularly after you have children. It is important to choose a marriage partner carefully.
EXERCISE

A. Have the students read Exercise 8.1, *The Opportunity Cost and Benefit of Spending and Saving in Students Workouts*, and answer the questions. Discuss the answers to the questions.

1. **What are the benefit and the opportunity cost of spending your income today?**
   (The benefit is that you can immediately consume goods and services. The opportunity cost is that you have less money to use for consuming goods and services in the future.)

2. **What are the benefit and the opportunity cost of saving some of your income?**
   (You can enjoy consuming more goods and services later, but you will enjoy fewer goods and services today.)

B. Have the students read Exercise 8.2, *A Tale of Two Savers*, in *Student Workouts* without examining Table 8.1, *The Growth of Ana’s and Shawn’s Savings*, or answering the questions. Ask the students whether Ana or Shawn will have more money at the end of his or her 65th year. You can take a show of hands or have a secret ballot. Ask some students to justify why they favor one savings plan over the other.

C. Now have the students examine Table 8.1 and answer the questions.

D. Discuss the answers to the questions.

1. How much money had Ana put into savings by age 65? ($24,000)

2. How much money had Shawn put into savings by age 65? ($64,000)

3. How much savings (total wealth) did Ana have at the end of her 65th year? ($993,306.59)

4. How much savings (total wealth) did Shawn have at the end of his 65th year? ($442,503.99)

5. **In money terms, what are the opportunity cost and benefit for Ana?** (Ana sacrificed the immediate uses she might have made of $24,000, but she has $993,306.59 at age 66.)

6. **In money terms, what are the opportunity cost and benefit for Shawn?** (Shawn sacrificed the immediate uses he might have made of $64,000, but he has $442,503.09 at age 66.)

7. **What is as important as the amount saved and amount of time? Why?** (How early the money is saved and how long it is left to accumulate. These factors will determine how much wealth accumulates. Even a small amount will grow large if left to compound over a long period of time.)

8. **What are the incentives for saving early?** (Saving early means fewer contributions are necessary as compared to saving later. Compounding of interest makes money for you.)

9. **What might be an opportunity cost for saving early?** (Ana gave up buying a nicer car in order to save more.)

10. **What conclusions can you draw from this activity?** (The earlier and longer money is saved, the more money it makes. It is better to save early and put it to work than to save later and try to catch up. Although Ana saved only $24,000, her return was greater than the return for Shawn, who saved $64,000.)

E. Ask the students why Ana had so much more money even though she saved less. Accept several reasons and write them on the board.

F. Display Visual 8.1, *The Chessboard of Financial Life*. Place a corn kernel or a penny on one of the corner squares. Ask the students if, given a choice, they would take $10,000 in cold cash OR the amount resulting from the penny or kernel in the corner doubled on the next square, and that amount doubled on the next square, and so on until each square has been used. Use corn or pennies to do the first few so they get the idea (2, 4, 8, 16, 32, 64, etc.). Ask the students to explain their choices.
A Tale of Two Savers

The following case study is about two people who saved. Each earned 10 percent interest. Of course, the interest or rate of return for any one year can differ greatly.

Ana Gutierrez started saving when she was 22, right out of college. Saving involves an opportunity cost—the best alternative given up. It wasn’t easy to save $2,000 a year then, considering her car loan, car, and rent payments. But Ana was determined to save because her grandmother always said it wasn’t what you make but what you save that determines your wealth. So, reluctantly, Ana gave up buying that new car and renting a really nice apartment, and she saved $2,000 a year. After 12 years, she got tired of the sacrifice, yearning for a brand new red sports car and other luxuries. She didn’t touch the money she had already saved because she wanted to be sure she would have money for retirement, which she planned to do at the end of her 65th year. But she quit saving and hit the stores.

Shawn Wright didn’t start saving until he was 34. He also graduated from college at 22, but he had done without many things in college, and, now that he had an income, he wanted some of those things. He bought a new car and a very nice wardrobe and took some wonderful trips. But spending his current income involved an opportunity cost. By the time he was 34, Shawn was married, had many responsibilities, and decided he’d better start saving and planning for his financial future. He had also heard that it isn’t what you have earned, but what you have saved, that determines your wealth. He figured he had 25 to 30 productive years left in his career. So, with new determination, Shawn saved $2,000 a year for the next 32 years until he retired at the end of his 65th year.

Which person do you believe had more savings at the end of his/her 65th year?

Now let’s see what really happened. Using Table 8.1, “The Growth of Ana’s and Shawn’s Savings,” answer the questions on the next page.
Questions

1. How much money had Ana put into savings by age 65?

2. How much money had Shawn put into savings by age 65?

3. How much savings (total wealth) did Ana have at the end of her 65th year?

4. How much savings (total wealth) did Shawn have at the end of his 65th year?

5. In money terms, what were the opportunity cost and benefit for Ana?

6. In money terms, what were the opportunity cost and benefit for Shawn?

7. What is as important as the amount saved and amount of time? Why?

8. What are the incentives for saving early?

9. What might be an opportunity cost for saving early?

10. What conclusions can you draw from this activity?
### The Growth of Ana's and Shawn's Savings

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<th>Age</th>
<th>Interest rate</th>
<th>Ana Gutierrez</th>
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<tr>
<td></td>
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<td>Saved</td>
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are paying for it. Another good thing about credit is that it allows a consumer to take advantage of sales to buy goods or services at a lower price when the consumer does not have enough money.

e. Distribute calculators to the students and review the math processes required to calculate interest. (If some of the students are proficient with spreadsheets, you may wish to have them construct a spreadsheet to complete this activity.)

f. Have the students work in pairs to complete Exercise 12.2, Cash or Credit? You Be the Judge in Student Workouts. Answers follow:

1. Elizabeth—Because of inflation the stereo will cost $1,030; Elizabeth will save $1,080; she will be able to buy the stereo and will have $50 plus interest earned over the year left over.

2. David—Will pay back the $800 in one month; he will pay no interest.

3. Ryan—It will take Ryan 10 months to pay off his credit card debt; he will have spent $851.47 including interest. The calculations are shown below.

4. Caitlin—paying only the minimum monthly payment, it will take Caitlin almost 15 years to pay her credit card debt, and she will have paid $2,034.04, which includes interest of $1,234.04.

g. Ask the students to compare the choices of the four consumers and decide who made the best decision. (David’s choice appears to be best. David got the enjoyment of his stereo right away, and because he paid his credit card balance in full, he paid no interest. Elizabeth had to wait a year to begin enjoying her stereo, and because of inflation, her cost was $1,030. Ryan got the enjoyment of the stereo while he made his monthly payments, but his total cost was $851.47. Caitlin got to enjoy her stereo right away, but it took her about 15 years to pay for it, and the total

Answers to 3. Ryan’s Credit Card Summary

<table>
<thead>
<tr>
<th>No. of Months</th>
<th>Amount Owed (Col. G on line before)</th>
<th>Amount paid each month</th>
<th>New Balance (B - C)</th>
<th>Annual Interest @ 18% (D x .18)</th>
<th>New Monthly Interest (E / 12)</th>
<th>Amount Owed (D + F)</th>
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<td>Month 1</td>
<td>$800.00</td>
<td>90.00</td>
<td>710.00</td>
<td>127.80</td>
<td>10.65</td>
<td>720.65</td>
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Total Paid: $851.47
cost was more than $2,000. Students may comment that Caitlin will undoubtedly want a newer and better stereo before she finished paying for the present one.)

2. Reading a Credit Card Statement
   a. Explain that when people make credit card purchases, they receive a monthly credit card statement that contains information about their purchases, payments and fees.
   b. Have the students examine the sample credit card statement in Exercise 12.3, Understanding a Credit Card Statement, in Student Workouts. Discuss the various components, making sure the students understand the following:
      1. **Total credit line**—The maximum amount that can be charged.
      2. **Total available credit**—Total credit line minus the new balance.
      3. **Cash limit**—Maximum amount that can be used for a cash advance.
      4. **Cash available**—Cash limit minus new balance.
      5. **Amount past due**—Any amount that was not paid on time.
      6. **Statement closing date**—The date of the last purchase billed on this statement.
      7. **New balance**—What is now owed.
      8. **Payment due date**—Date by which the minimum payment must be made.
      9. **Minimum payment**—The least amount that must be paid to avoid penalty.
     10. **Previous balance**—Last month’s balance.
      11. **Payments**—How much was paid in the last billing period.
      12. **Other credits**—Any refunds posted to the account in the last billing period.
      13. **Purchases**—Total amount spent in this billing cycle; this is itemized in another part of the statement.
      14. **Cash advances**—Amount charged to this account for cash received.
      15. **Other fees**—Late fees or other service charges.
      16. **Finance charge**—Interest incurred on previous balance.
      17. **Grace period**—Time when no interest is charged on new purchases if the new balance is paid in full by the payment due date.
   c. Demonstrate how the new balance was computed. See Box.

![Credit Card Statement Table]

   | Previous balance | $345.55 |
   | Minus payments   | -200.00 |
   | Plus Purchases   | 207.64  |
   | Plus late fee    | 29.00   |
   | Plus finance charge | 5.30  |
   | New Balance      | $387.49 |

d. Have the students complete Exercise 12.3 as an independent assignment. (Answers:)
   3. Fee for late payment.
   4. The credit limit is $3,000.
   5. $207.64
   6. $200.00
   7. $3,000.00
   8. $2,612.00
   9. $5.30
   10. Because he or she did not pay the balance in full last month.
   11. Answers will vary, but it appears that the consumer is paying a major portion of his or her credit card debt but has had difficulty in making the monthly payments on time ($29 late fee).
Cash or Credit?  
You Be The Judge

Super Stereo System  
Regularly $1000

Now 20% off!

Read the four stories below and analyze each person's spending decision regarding the stereo sale advertised above.

Elizabeth wants to buy a new stereo, but she just started her baby-sitting job and she hasn't earned any money yet. She figures once she starts earning income she can save $90 a month in a savings account that earns three percent interest annually. Elizabeth learned about inflation in school. Inflation is a general increase in prices. She learned that the annual inflation rate is about three percent.

She decides to save her money and buy the stereo next year when she can afford to pay cash for it.

1. Assuming the price of the stereo increases at the rate of inflation, how much will the stereo cost a year from now?
   (HINT: $1000 × .03 + $1000)
LESSON 12

2 How much will Elizabeth put into her account in the year?

3 Will Elizabeth be able to buy the stereo?

4 Will Elizabeth have any money left over?

David would like to buy a stereo and save 20 percent during a sale. He uses his credit card to pay for it. David is counting on getting a lot of graduation money from his parents’ business associates. David knows that his credit card company offers a 28-day grace period, so if he pays off the whole amount, he won’t owe any interest.

Sure enough, after his big party, David counts up the checks and he has $900! When he gets his credit card bill at the end of the month, he is able to pay the balance of $800 in full.

1 How long will it take for David to pay off the $800?

2 How much interest will he have to pay?

Ryan has a credit card. When he spotted a sale, he wanted to take advantage of the $200 savings and buy a stereo at the sale price.

Ryan plans to save $90 a month from his job as an office assistant in his dad’s insurance business. He plans to pay the credit card company $90 every month until his bill is paid.

1 Use the chart on the next page to figure out how long it will take him to pay off his credit card debt; the first month is done for you.
Add all the numbers in Column C to find out how much Ryan ended up spending when he bought the stereo.
Caitlin really wants a new stereo too, and the 20% off sale is very tempting, so she decides to use her credit card and buy the stereo now for $800.

Caitlin works once in a while for her neighbor—cleaning, baby-sitting or mowing the lawn—but she doesn’t really earn a regular income. She probably won’t be able to save much money, so she plans to pay only the minimum required every month on her credit card bill.

(NOTE: Most credit card companies require a minimum monthly payment of at least $10 or 1/50 of the unpaid balance, whichever is higher. So, if you owe $1,000, your minimum payment is 1/50 of $1,000 or $20; if you owe $100, your minimum payment is $10 because 1/50 of $100 is only $2.)

Look at the chart for Caitlin’s Credit Record for the first 22 months and the last 17 months of her payments. The chart shows what happens when Caitlin makes only the minimum payment. Then answer the following questions.

△ How many years will it take to pay for the stereo:

△ How much will Caitlin spend for the $800 stereo?
(Total of Column C):

△ How much interest will Caitlin pay (Column F) on her purchase?:

### Caitlin's Credit Card Summary

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<th>No. of Months</th>
<th>Amount Owed (Col. G on line before)</th>
<th>Min. paymt $10 or 1/50 of B (whichever is higher)</th>
<th>Balance after min. is paid (B - C)</th>
<th>Annual Interest @ 18% (D x .18)</th>
<th>Monthly Interest (E ÷ 12)</th>
<th>New Amount Owed (D + F)</th>
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<td>15.50</td>
<td>759.40</td>
<td>136.69</td>
<td>11.39</td>
<td>770.79</td>
</tr>
<tr>
<td>Month 8</td>
<td>770.79</td>
<td>15.42</td>
<td>755.37</td>
<td>135.97</td>
<td>11.33</td>
<td>766.70</td>
</tr>
<tr>
<td>Month 9</td>
<td>766.70</td>
<td>15.33</td>
<td>751.37</td>
<td>135.25</td>
<td>11.27</td>
<td>762.64</td>
</tr>
<tr>
<td>Month 10</td>
<td>762.64</td>
<td>15.25</td>
<td>747.39</td>
<td>134.53</td>
<td>11.21</td>
<td>758.60</td>
</tr>
<tr>
<td>Month 11</td>
<td>758.60</td>
<td>15.17</td>
<td>743.43</td>
<td>133.82</td>
<td>11.15</td>
<td>754.58</td>
</tr>
<tr>
<td>Month 12</td>
<td>754.58</td>
<td>15.09</td>
<td>739.48</td>
<td>133.11</td>
<td>11.09</td>
<td>750.58</td>
</tr>
<tr>
<td>Month 13</td>
<td>750.58</td>
<td>15.01</td>
<td>735.57</td>
<td>132.40</td>
<td>11.03</td>
<td>746.60</td>
</tr>
<tr>
<td>Month 14</td>
<td>746.60</td>
<td>14.93</td>
<td>731.67</td>
<td>131.70</td>
<td>10.98</td>
<td>742.64</td>
</tr>
<tr>
<td>Month 15</td>
<td>742.64</td>
<td>14.85</td>
<td>727.79</td>
<td>131.00</td>
<td>10.92</td>
<td>738.71</td>
</tr>
<tr>
<td>Month 16</td>
<td>738.71</td>
<td>14.77</td>
<td>723.93</td>
<td>130.31</td>
<td>10.86</td>
<td>734.79</td>
</tr>
<tr>
<td>Month 17</td>
<td>734.79</td>
<td>14.70</td>
<td>720.10</td>
<td>129.62</td>
<td>10.80</td>
<td>730.90</td>
</tr>
<tr>
<td>Month 18</td>
<td>730.90</td>
<td>14.62</td>
<td>716.28</td>
<td>128.93</td>
<td>10.74</td>
<td>727.02</td>
</tr>
<tr>
<td>Month 19</td>
<td>727.02</td>
<td>14.54</td>
<td>712.48</td>
<td>128.25</td>
<td>10.69</td>
<td>723.17</td>
</tr>
<tr>
<td>Month 20</td>
<td>723.17</td>
<td>14.46</td>
<td>708.71</td>
<td>127.57</td>
<td>10.63</td>
<td>719.34</td>
</tr>
<tr>
<td>Month 21</td>
<td>719.34</td>
<td>14.39</td>
<td>704.95</td>
<td>126.89</td>
<td>10.57</td>
<td>715.52</td>
</tr>
<tr>
<td>Month 22</td>
<td>715.52</td>
<td>14.31</td>
<td>701.21</td>
<td>126.22</td>
<td>10.52</td>
<td>711.73</td>
</tr>
<tr>
<td></td>
<td>Amount Owed (Col. C on line before)</td>
<td>Min. paymt $10 or 1/50 of B (whichever is higher)</td>
<td>Balance after min. is paid (B - C)</td>
<td>Annual Interest @ 18% (D x .18)</td>
<td>Monthly Interest (E ÷ 12)</td>
<td>New Amount Owed (D + F)</td>
</tr>
<tr>
<td>---</td>
<td>----------------------------------</td>
<td>-----------------------------------------------</td>
<td>----------------------------------</td>
<td>--------------------------------</td>
<td>--------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
<td>E</td>
<td>F</td>
<td>G</td>
</tr>
<tr>
<td>Month 163</td>
<td>148.49</td>
<td>10.00</td>
<td>138.49</td>
<td>24.93</td>
<td>2.08</td>
<td>140.56</td>
</tr>
<tr>
<td>Month 164</td>
<td>140.56</td>
<td>10.00</td>
<td>130.56</td>
<td>23.50</td>
<td>1.96</td>
<td>132.52</td>
</tr>
<tr>
<td>Month 165</td>
<td>132.52</td>
<td>10.00</td>
<td>122.52</td>
<td>22.05</td>
<td>1.84</td>
<td>124.36</td>
</tr>
<tr>
<td>Month 166</td>
<td>124.36</td>
<td>10.00</td>
<td>114.36</td>
<td>20.58</td>
<td>1.72</td>
<td>116.08</td>
</tr>
<tr>
<td>Month 167</td>
<td>116.08</td>
<td>10.00</td>
<td>106.08</td>
<td>19.09</td>
<td>1.59</td>
<td>107.67</td>
</tr>
<tr>
<td>Month 168</td>
<td>107.67</td>
<td>10.00</td>
<td>97.67</td>
<td>17.58</td>
<td>1.46</td>
<td>99.13</td>
</tr>
<tr>
<td>Month 169</td>
<td>99.13</td>
<td>10.00</td>
<td>89.13</td>
<td>16.04</td>
<td>1.34</td>
<td>90.47</td>
</tr>
<tr>
<td>Month 170</td>
<td>90.47</td>
<td>10.00</td>
<td>80.47</td>
<td>14.48</td>
<td>1.21</td>
<td>81.68</td>
</tr>
<tr>
<td>Month 171</td>
<td>81.68</td>
<td>10.00</td>
<td>71.68</td>
<td>12.90</td>
<td>1.08</td>
<td>72.75</td>
</tr>
<tr>
<td>Month 172</td>
<td>72.75</td>
<td>10.00</td>
<td>62.75</td>
<td>11.30</td>
<td>0.94</td>
<td>63.69</td>
</tr>
<tr>
<td>Month 173</td>
<td>63.69</td>
<td>10.00</td>
<td>53.69</td>
<td>9.66</td>
<td>0.81</td>
<td>54.50</td>
</tr>
<tr>
<td>Month 174</td>
<td>54.50</td>
<td>10.00</td>
<td>44.50</td>
<td>8.01</td>
<td>0.67</td>
<td>45.16</td>
</tr>
<tr>
<td>Month 175</td>
<td>45.16</td>
<td>10.00</td>
<td>35.16</td>
<td>6.33</td>
<td>0.53</td>
<td>35.69</td>
</tr>
<tr>
<td>Month 176</td>
<td>35.69</td>
<td>10.00</td>
<td>25.69</td>
<td>4.62</td>
<td>0.39</td>
<td>26.08</td>
</tr>
<tr>
<td>Month 177</td>
<td>26.08</td>
<td>10.00</td>
<td>16.08</td>
<td>2.89</td>
<td>0.24</td>
<td>16.32</td>
</tr>
<tr>
<td>Month 178</td>
<td>16.32</td>
<td>10.00</td>
<td>6.32</td>
<td>1.14</td>
<td>0.09</td>
<td>6.41</td>
</tr>
<tr>
<td>Month 179</td>
<td>6.41</td>
<td>6.41</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>2034.04</td>
<td></td>
<td></td>
<td>1234.04</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
So Many Credit Card Offers: What's the Difference?

With your partner, examine two credit card applications. Then complete the chart below and answer the questions that follow.

<table>
<thead>
<tr>
<th></th>
<th>Credit Card A</th>
<th>Credit Card B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate (APR)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grace period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum payment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Late fee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other fees</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If you were to choose one of these credit cards, which one would it be? ______________

What are the benefits of the card you chose? _______________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________

What are some of the costs of the card you chose? ___________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
________________________________________________________________________________
Ways to Categorize Expenses

**FIXED EXPENSES**
Spending that remains the same month to month.
- Rent or mortgage payment
- Car payment

**VARIABLE EXPENSES**
Spending that changes month to month.
- Long distance telephone bill
- Gas for the car
- Food purchased at restaurants
- Video rental

**PLANNED EXPENSES**
Spending you expect and for which you plan.
- Gift for your mother’s birthday
- Friday night movie and ice cream
- Deposit to college savings account

**UNPLANNED EXPENSES**
Spending for an unexpected emergency, an urgent need, or an impulse purchase.
- Car repair for fender-bender
- Doctor visit for sprained ankle (or broken bone.)
- Fabulous sale at local music store
- Donation to collection for victims of earthquake
# Visual 15.2

## Living Within Their Means

### Answer Grid

<table>
<thead>
<tr>
<th></th>
<th>Lauren</th>
<th>Brian</th>
<th>Maria</th>
<th>Suzanne</th>
<th>Marcus</th>
<th>Jeff</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual income</strong></td>
<td>$43,000</td>
<td>$35,000</td>
<td>$37,000</td>
<td>$130,000</td>
<td>$67,000</td>
<td>$28,950</td>
</tr>
<tr>
<td><strong>Monthly income</strong></td>
<td>$3,583.33</td>
<td>$2,916.67</td>
<td>$3,083.33</td>
<td>$10,833.33</td>
<td>$5,583.33</td>
<td>$2,412.50</td>
</tr>
<tr>
<td><strong>Savings</strong></td>
<td>$200</td>
<td>$185</td>
<td>$100</td>
<td>$1,485</td>
<td>$650</td>
<td>$200</td>
</tr>
<tr>
<td><strong>Rent/Home</strong></td>
<td>650</td>
<td>725</td>
<td>575</td>
<td>4,005</td>
<td>1,275</td>
<td>750</td>
</tr>
<tr>
<td><strong>Utilities</strong></td>
<td>300</td>
<td>240</td>
<td>285</td>
<td>550</td>
<td>285</td>
<td>65</td>
</tr>
<tr>
<td><strong>Phone/cable/internet</strong></td>
<td>150</td>
<td>175</td>
<td>225</td>
<td>275</td>
<td>95</td>
<td>45</td>
</tr>
<tr>
<td><strong>Food/Groceries</strong></td>
<td>225</td>
<td>207</td>
<td>375</td>
<td>275</td>
<td>275</td>
<td>95</td>
</tr>
<tr>
<td><strong>Car payment</strong></td>
<td>550</td>
<td>365</td>
<td>125</td>
<td>750</td>
<td>350</td>
<td>155</td>
</tr>
<tr>
<td><strong>Insurance</strong></td>
<td>156</td>
<td>148</td>
<td>220</td>
<td>625</td>
<td>215</td>
<td>115</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td>77</td>
<td>88</td>
<td>47</td>
<td>375</td>
<td>85</td>
<td>115</td>
</tr>
<tr>
<td><strong>Charity</strong></td>
<td>80</td>
<td>89</td>
<td>20</td>
<td>550</td>
<td>95</td>
<td>55</td>
</tr>
<tr>
<td><strong>Clothes</strong></td>
<td>55</td>
<td>115</td>
<td>185</td>
<td>225</td>
<td>150</td>
<td>40</td>
</tr>
<tr>
<td><strong>Loan payments</strong></td>
<td>450</td>
<td>307</td>
<td>607</td>
<td>750</td>
<td>1385</td>
<td>595</td>
</tr>
<tr>
<td><strong>Entertainment</strong></td>
<td>200</td>
<td>150</td>
<td>165</td>
<td>450</td>
<td>285</td>
<td>45</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>150</td>
<td>125</td>
<td>75</td>
<td>365</td>
<td>95</td>
<td>60</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>166</td>
<td>185</td>
<td>150</td>
<td>255</td>
<td>275</td>
<td>75</td>
</tr>
<tr>
<td><strong>Total Monthly Expense</strong></td>
<td><strong>$3,409</strong></td>
<td><strong>$3,104</strong></td>
<td><strong>$3,154</strong></td>
<td><strong>$10,935</strong></td>
<td><strong>$5,515</strong></td>
<td><strong>$2,410</strong></td>
</tr>
<tr>
<td><strong>Amount left over</strong></td>
<td>$174.33</td>
<td>-$187.33</td>
<td>-$70.67</td>
<td>-$101.67</td>
<td>$68.33</td>
<td>$2.50</td>
</tr>
</tbody>
</table>

Living Within Their Means

Read one of the case studies on this or the following pages and decide whether the person stayed within his or her budget. (NOTE: All incomes are after income taxes have been paid.) Then answer questions 1-4 at the end of the exercise. After each group gives a report, answer questions 5-9.

### Case Study A
Lauren earns $43,000 a year as a teacher in a booming suburban school district. She has the following monthly expenses:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>$200</td>
</tr>
<tr>
<td>Rent/home mortgage</td>
<td>$650</td>
</tr>
<tr>
<td>Utilities</td>
<td>$300</td>
</tr>
<tr>
<td>Phone/cable/Internet</td>
<td>$225</td>
</tr>
<tr>
<td>Food/groceries</td>
<td>$300</td>
</tr>
<tr>
<td>Car payment</td>
<td>$550</td>
</tr>
<tr>
<td>Insurance (car/rental/home)</td>
<td>$156</td>
</tr>
<tr>
<td>Transportation, incl. gas</td>
<td>$77</td>
</tr>
<tr>
<td>Charity</td>
<td>$80</td>
</tr>
<tr>
<td>Clothes</td>
<td>$55</td>
</tr>
<tr>
<td>Loan payments</td>
<td>$450</td>
</tr>
<tr>
<td>Entertainment</td>
<td>$200</td>
</tr>
<tr>
<td>Services (cleaning, hair dresser)</td>
<td>$180</td>
</tr>
<tr>
<td>Other</td>
<td>$166</td>
</tr>
</tbody>
</table>

Did Lauren spend more or less than she earned? ______
How much? ______

### Case Study B
Brian has a retirement pension of $35,000 a year. He has the following monthly expenses:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>$185</td>
</tr>
<tr>
<td>Rent/home mortgage</td>
<td>$725</td>
</tr>
<tr>
<td>Utilities</td>
<td>$240</td>
</tr>
<tr>
<td>Phone/cable/Internet</td>
<td>$175</td>
</tr>
<tr>
<td>Food/groceries</td>
<td>$207</td>
</tr>
<tr>
<td>Car payment</td>
<td>$365</td>
</tr>
<tr>
<td>Insurance (car/rental/home)</td>
<td>$148</td>
</tr>
<tr>
<td>Transportation, incl. gas</td>
<td>$88</td>
</tr>
<tr>
<td>Charity</td>
<td>$89</td>
</tr>
<tr>
<td>Clothes</td>
<td>$115</td>
</tr>
<tr>
<td>Loan payments</td>
<td>$307</td>
</tr>
<tr>
<td>Entertainment</td>
<td>$150</td>
</tr>
<tr>
<td>Services (cleaning, hair dresser)</td>
<td>$125</td>
</tr>
<tr>
<td>Other</td>
<td>$185</td>
</tr>
</tbody>
</table>

Did Brian spend more or less than he earned? ______
How much? ______

Financial Fitness for Life: Shaping Up Your Financial Future—Student Workbooks
The National Council on Economic Education
### Case Study C

Maria is a pre-med student, but she works part-time as a lab assistant at the university. She earns $37,000 a year and has the following expenses.

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>$100</td>
</tr>
<tr>
<td>Rent/home mortgage</td>
<td>$575</td>
</tr>
<tr>
<td>Utilities</td>
<td>$285</td>
</tr>
<tr>
<td>Phone/cable/Internet</td>
<td>$225</td>
</tr>
<tr>
<td>Food/groceries</td>
<td>$375</td>
</tr>
<tr>
<td>Car payment</td>
<td>$125</td>
</tr>
<tr>
<td>Insurance (car/rental/home)</td>
<td>$220</td>
</tr>
<tr>
<td>Transportation, incl. gas</td>
<td>$47</td>
</tr>
<tr>
<td>Charity</td>
<td>$185</td>
</tr>
<tr>
<td>Clothes</td>
<td>$607</td>
</tr>
<tr>
<td>Loan payments</td>
<td>$165</td>
</tr>
<tr>
<td>Entertainment</td>
<td>$75</td>
</tr>
<tr>
<td>Services (cleaning, hair dresser)</td>
<td>$150</td>
</tr>
<tr>
<td>Other</td>
<td>$375</td>
</tr>
</tbody>
</table>

**Did Maria spend more or less than she earned?**

**How much?**

### Case Study D

Suzanne is the executive vice president of a Silicon Valley computer-engineering firm. She earns $150,000 a year and has the following expenses.

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>$1,485</td>
</tr>
<tr>
<td>Rent/home mortgage</td>
<td>$4,006</td>
</tr>
<tr>
<td>Utilities</td>
<td>$550</td>
</tr>
<tr>
<td>Phone/cable/Internet</td>
<td>$275</td>
</tr>
<tr>
<td>Food/groceries</td>
<td>$275</td>
</tr>
<tr>
<td>Car payment</td>
<td>$950</td>
</tr>
<tr>
<td>Insurance (car/rental/home)</td>
<td>$425</td>
</tr>
<tr>
<td>Transportation, incl. gas</td>
<td>$375</td>
</tr>
<tr>
<td>Charity</td>
<td>$550</td>
</tr>
<tr>
<td>Clothes</td>
<td>$225</td>
</tr>
<tr>
<td>Loan payments</td>
<td>$750</td>
</tr>
<tr>
<td>Entertainment</td>
<td>$450</td>
</tr>
<tr>
<td>Services (cleaning, hair dresser)</td>
<td>$365</td>
</tr>
<tr>
<td>Other</td>
<td>$255</td>
</tr>
</tbody>
</table>

**Did Suzanne spend more or less than she earned?**

**How much?**
### Case Study E

Marcus is an attorney working as a prosecutor in a small town in Iowa. He earns $67,000 a year and has the following expenses:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>$650</td>
</tr>
<tr>
<td>Rent/home mortgage</td>
<td>1,275</td>
</tr>
<tr>
<td>Utilities</td>
<td>295</td>
</tr>
<tr>
<td>Phone/cable/Internet</td>
<td>95</td>
</tr>
<tr>
<td>Food/groceries</td>
<td>275</td>
</tr>
<tr>
<td>Car payment</td>
<td>350</td>
</tr>
<tr>
<td>Transportation, incl. gas</td>
<td>215</td>
</tr>
<tr>
<td>Charity</td>
<td>85</td>
</tr>
<tr>
<td>Clothes</td>
<td>150</td>
</tr>
<tr>
<td>Loan payments</td>
<td>1,385</td>
</tr>
<tr>
<td>Entertainment</td>
<td>285</td>
</tr>
<tr>
<td>Services (cleaning, hair dresser)</td>
<td>95</td>
</tr>
<tr>
<td>Other</td>
<td>275</td>
</tr>
</tbody>
</table>

Did Marcus spend more or less than he earned?  
How much: 

---

### Case Study F

Jeff is a successful superintendent for a small construction company in Texas. He earns $28,950 a year and has the following monthly expenses:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>750</td>
</tr>
<tr>
<td>Rent/home mortgage</td>
<td>65</td>
</tr>
<tr>
<td>Utilities</td>
<td>45</td>
</tr>
<tr>
<td>Phone/cable/Internet</td>
<td>95</td>
</tr>
<tr>
<td>Food/groceries</td>
<td>155</td>
</tr>
<tr>
<td>Car payment</td>
<td>115</td>
</tr>
<tr>
<td>Insurance (car/rental/home)</td>
<td>115</td>
</tr>
<tr>
<td>Transportation, incl. gas</td>
<td>55</td>
</tr>
<tr>
<td>Charity</td>
<td>40</td>
</tr>
<tr>
<td>Clothes</td>
<td>595</td>
</tr>
<tr>
<td>Loan payments</td>
<td>45</td>
</tr>
<tr>
<td>Entertainment</td>
<td>60</td>
</tr>
<tr>
<td>Services (cleaning, hair dresser)</td>
<td>75</td>
</tr>
<tr>
<td>Other</td>
<td>75</td>
</tr>
</tbody>
</table>

Did Jeff spend more or less than he earned?  
How much: 

---

Respond to the following questions about the person whose case study your group analyzed:

The person's car needs a new timing belt at a cost of $700. What changes would you make in his/her budget?

If the person increases savings by $175 for four months in order to buy the timing belt, what are some trade-offs to consider?

Remember that opportunity cost is the next-best alternative that is given up when a choice is made. Based upon the choice s/he made to increase savings for the timing belt, what is the opportunity cost?

Make some suggestions for how the person whose case study you read could budget her/his income and expenses more wisely.

Exchange information with other teams in your class to answer these questions:

Who had the most money left at the end of the month?

Who overspent the budget?

Which worker had between $100 and $200 left at the end of the month?

How much income did Marcus have left over at the end of the month?

If Lauren chooses to take a trip this month that costs $500, what are some trade-offs she'll have to consider?
<table>
<thead>
<tr>
<th>Name</th>
<th>E-mail</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
The Problem

- Teenagers spend over $172 billion annually.
- More young people filed for bankruptcy than graduated from college in 2001.
- 95% of college graduate students have cards; each has an average of four cards with an average total balance of $4,776.
- Only 21% of students between the ages of 16 and 22 say they have taken a personal finance course at school.

(Statistics provided by the American Bankruptcy Institute, the Federal Reserve, and the National Endowment for Financial Education.)

Regional Meeting
Best Practices Topic

"Engage in a successful project to increase the financial literacy of high school and college students in the community."

MoneySense Program Objectives

- Provide young adults with information to help make good financial decisions
- Help students understand the importance of managing money wisely
- Raise awareness of potential problems students might encounter when living on their own for the first time

MoneySense Seminars

- Six seminars on various financial topics
- Occur in January and February
  - Saturdays from 10-12 pm
  - Free breakfast
- Topics include: budgeting & savings, credit and ID theft, living on your own, investing, and taxes

High School Education

- Going into classrooms to teach students about financial issues
- Topics include: budgeting, savings, investing, credit, and checking
- Be role models for younger students starting out
Committees Needed!

- Help with:
  - Marketing
  - Advertising
  - Preparing for presentations
  - Teaching
- Great resume builder
- Involvement/Extracurricular activities play a big role in recruiting

Learn More

- Web address: http://www.cbe.wwu.edu/clubs/bap/MoneySense/home.asp
- Contacts:
  - MoneySense Seminars:
    Alexa Volwiler
    alexa.volwiler@gmail.com
  - High School Education:
    Angela Martin
    alegna788@comcast.net

MoneySense Program
Instructor

All seminar sessions will run from 10 AM to Noon.
Dear Dr. XYZ,

Western's chapter to Beta Alpha Psi (BAP), an organization for accounting and financial information students, is hosting six seminars in January and February to teach college students about various topics in financial literacy. We are very excited about the program because we feel that there is a serious lack of financial knowledge among young adults in the United States. We are trying to make a difference in our community.

The program, called MoneySense, targets freshmen and sophomores who are just starting to be financially independent. These are also the students who, due to lack of knowledge, tend to run into financial problems. In fact, it was found that in 2001, more young people filed for bankruptcy than graduated from college in the United States.* Our goal is to help students understand how to make intelligent financial decisions to become well-off in their future.

BAP students will be teaching each session (except the last one), which will allow participants to better connect with the material. We have collected extensive materials on each topic and are expecting to give fun and informative presentations.

This program will only be successful if we can get students to attend, which is why we are asking for your help. It would be wonderful if you would consider providing extra credit to students who attend. At the very least, we would appreciate it if you would allow us to come into your classroom the first or second day of classes during winter quarter to give a short presentation about the program and pass out some information. We are trying very hard to make this a lasting program that has an impact on the lives of students. Please help us get it off to a good start.

Please feel free to visit our website or contact the MoneySense coordinator with questions or concerns.

http://www.cbe.wwu.edu/clubs/bap/MoneySense/home.asp

Thank you very much,

Angela Martin
MoneySense Program Co-Coordinator
Theta Phi Chapter, BAP
alegna788@comcast.net
253-670-3218

MoneySense Program
Itinerary

*All seminar sessions will run from 10 AM to Noon
January 7: Fun and introductions to personal finance

- Media messages about money and consumerism
- Financial resources on campus and around town
- Banking and checking accounts

January 21: Budgeting and savings

- Living within your means
- Importance of saving money
- Saving for the future: major life expenses and retirement

January 28: Credit cards, credit scores, and ID theft

- Shopping for credit cards
- Consumer protection
- Using credit wisely
- Protection against ID theft online and offline

February 4: Living on your own

- Budgeting for your lifestyle
- Financial questions to ask when looking for housing
- Financial lessons about roommates

February 11: Investing

- Types of investments
- Setting investment goals

February 25: Taxes
Hosted by tax professionals

- Know your filing status
- Tax strategies

*Statistics provided by the American Bankruptcy Institute
MoneySense: Financial Literacy Campaign

What every student must know to become well-off in the future

**January 7: Fun and introductions to personal finance**
- Media messages about money and consumerism
- Financial resources on campus and around town
- Banking and checking accounts

**January 21: Budgeting and savings**
- Living within your means
- Importance of saving money
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- Shopping for credit cards
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- Budgeting for your lifestyle
- Financial questions to ask when looking for housing
- Financial lessons about roommates

**February 11: Investing**
- Types of investments
- Setting investment goals

**February 25: Taxes:**
Hosted by tax professionals
- Filing status
- Tax strategies

Come participate. Free for all students!
Free continental breakfast!

10 AM to Noon
http://www.cbe.wwu.edu/clubs/bap/MoneySense/home.asp
Location: WWU Biology Building 234

Taught by Beta Alpha Psi accounting students
Money$ense:
Financial Literacy Campaign
What every student must know to become well-off in the future

- What is compound interest and how does it make it easy for you to become a millionaire?
- Why is it so important to check your credit report (even if you don't have a credit card)?
- Why should you invest differently for short-term needs than long-term needs?
- Why is credit card debt one of the worst kinds of debt?
- Why is a budget so crucial to financial freedom?
- What kinds of unexpected fees could you be charged with just for signing up for a credit card?
- What is the difference between a bank and a credit union?
- How might poor credit history prevent you from getting a job or a loan later in life?
- What types of expenses should you expect when living on your own?
- When should you file an individual tax return?

Learn answers to these questions and more.
FREE information and breakfast for all students!

Turn this over to find out more...
Come join us for our free seminar sessions!

January 7: Fun and introductions to personal finance
- Media messages about money and consumerism
- Financial resources on campus and around town
- Banking and checking accounts

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Taught by Beta Alpha Psi accounting students

Location: WWU Biology 234

Come join us for our free seminar sessions!

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Taught by Beta Alpha Psi accounting students

Location: WWU Biology 234
Dear Mr. XYZ,

My name is Angela Martin and am I contacting you to follow up on a proposal Alexa Volwiler sent to you in early October. An accounting student at Western, I have had the opportunity to take a variety of business courses over the last several years but I know this is an experience few can claim in high school. Basic financial knowledge of credit, savings, and investing is critical if a student hopes to lead a healthy fiscal life. Referred to me by Pamela Whalley, I would like come teach a class or two with a couple other Western students on a topic related to developing good financial habits. Ideally I’d like to come in next quarter so please let me know if you would be interested in something like this so we can set a date. I plan on teaching primarily out of the National Council on Economic Education’s Financial Fitness for Life workbook, as it has a variety of topics for a variety of students (freshman to seniors). I know you have a busy schedule and your own set curriculum to cover but I would really love to work with you to make this happen. If you would like me to come in and teach multiple topics on more than one day or if you can only fit me in for one class session either way would be appreciated. Also if you know any other teachers that would be interested in this program please let me know. Thank you for your help and hopefully I will hear from you soon. Have a great day.

Sincerely,

Angela Martin
Money Sense High School Coordinator
cell: (253) 670-3218
Introduction

- Those who are able to achieve their financial goals in life — even those with relatively little income — usually have identified their specific goals and then have developed a plan that will help them achieve their goals over time.
- Your financial plan doesn't have to be complicated
- You don't have to earn a lot of money to have a financial plan.
- Your financial plan can be as simple as finding a way to live within your income, pay your bills on time, and maybe save a little bit of money as well.
- Before we talk about how to develop your plan, it is helpful to explore some other facets of your life that can either speed up or slow down your journey to financial success. You will have many choices to make in developing your successful financial plan.

VALUES

Why are values important to a successful financial plan?

- We value the things we think are important. In a time of hard financial choices, you have to re-examine the things you really value in life and decide to spend your money only on the things you value most.
- If you are not careful, you may end up devoting all your time, money, and energy to the immediate crisis and neglecting other things that are really important.
- One way to help you decide which of your values is the most important is to set priorities. Completing the activities on the next page will help.

Values Activity #1 — Values Priority Chart

1. List your additional values in the "Values" section on the left.
2. Rank them in their order of importance to you in the "Priority Order" section on the right.

For instance, if both financial health and mental health are important to you, which one would you choose to address first if you had to make a choice?

ACHIEVING BALANCE BETWEEN VALUES

- Often you have to make difficult choices between values when they compete with each other.
- When values conflict with each other success in one can cause you to have to compromise another.
- The trick is to be able to balance your values so that they complement each other.
- The planning process will help you achieve this balance because you will take all of your most important values into consideration when you develop your financial plan.
- The values you have listed will be reflected in the goal(s) that you set for yourself.
- Just as you have set priorities with your values, you will also need to set priorities with your goals.
THE PLANNING PROCESS
1. Assess needs
2. Set goals
3. Make a plan
4. Take action

THE PLANNING PROCESS:
Step #1. Assess Needs
Evaluate your current financial situation. In this step, take a broad look at the way things are now. Ask yourself these questions:
• What are my basic needs?
• What else do I need?
• Do I really NEED it? Is there an alternative to buying it now?
• What else do I want?
• Why do I want it?
• How would life be different if I had it? What would change if I had it?
• Make a list of wants and a list of needs. Do the lists agree with your values and priorities?

THE PLANNING PROCESS:
Step #2. Set Goals
A goal is a specific result you intend to work toward. A realistic goal is SMART:
Specific
Measurable
Attainable
Relevant
Time-related

Specific — Set specific goals which you can clearly name. For example, save money to get a new refrigerator — not just to save money.
Measurable — Measure goals by the time and/or money it will take to attain them.
Attainable — Make sure goals are reasonable and possible. For example, "I know I can save $200 each week to reach my goal within six months."
Relevant — Make sure your goals fit your needs.
Time-related — Set a definite target date. For example, "I must save enough to purchase a new refrigerator within six months (by ___ month, ___ day, ___ year)."

THE PLANNING PROCESS
• Goals can be classified according to how far in the future you’re thinking:
  o Short-term: Goals that occur within the next two months, such as making the next month’s rent payment on time or saving for a present for someone whose birthday is in six weeks.
  o Medium-term: Goals that occur two months to three years into the future. Examples include saving to buy a car next year or getting ready to purchase a home in two years.
  o Long-term: Goals that occur three years or more into the future. Examples include saving for retirement or saving for future college expenses, such as graduate school.

THE PLANNING PROCESS
• Progress toward goals will depend on spending less than you receive.
• There are only two ways to accomplish this: spend less or receive more.

THE PLANNING PROCESS:
Receiving More: What determines People’s Pay
• Competition
  o Based on productivity, or the worker’s ability to produce
• Education
  o Productivity in today’s economy depends on the use of information and technology
  o People with more education are usually more productive
• Education and Earnings (median by group):
  o Some college $32,396
  o College graduate $48,384
  o Advanced degree or higher $57,408
THE PLANNING PROCESS

Spending Less

This is where budgeting comes in, which will be discussed later on.

Summary

- Financial success is usually a result of consciously deciding what we really want and need and making a realistic plan to achieve these things.
- Whenever you spend money for anything you are making a decision, even if it is a small one.
- Before you take out your wallet, remember what you value most in life, what goals you have already decided you want to achieve and when, and the plan you have made to achieve those goals.

The Purpose of a Budget

- Managing cash requires you to examine how you earn money and how you spend it.
- A cash flow statement is one way of recording how money is spent—what you purchase, the amount, and whether the expense is planned or unplanned.
Components of a Budget

AVERAGE MONTHLY INCOME

- Any budget discussion must begin with an honest determination of how much money you actually have to work with each month.
  - Do you know what your real average monthly income is?

- There are two ways to look at your monthly income:
  1. Gross income: the total you actually earned (e.g., $1,000/month)
  2. Net income: what is left after your employer takes out deductions for taxes, social security, Medicare, etc. This is also called your "take-home pay."

- In order to know how much you can actually spend, you must accurately determine your net (take-home) pay.

Exercise #1: Calculate Average Monthly Take-Home Pay

1. Find your gross income or total earnings on a pay stub.

2. Subtract deductions for federal, state, and local taxes; social security; insurance premiums; garnishments; any other employee benefits; retirement or savings deductions; charitable deductions, etc.

3. Subtract any other automatic deductions that you have authorized, like loan payments, savings plan, etc.

4. If you are paid every week, twice a month or bi-weekly, use one of the following formulas to convert your pay to a monthly amount.

   - per week x 4.333 = __________ per month
   - per month x 2.167 = __________ per month
   - twice a month x 2 = __________ per month

5. If you have any other sources of income, or if your pay varies seasonally, calculate an average over six months or a year to account for the peaks and valleys.

   Add this amount to your other regular income.

This is your: Total Average Monthly Income $________

Exercise #2: Estimate Your Average Monthly Spending

MONEY: TRACKING YOUR SPENDING

Consider each spending category on the left and write how much you think you spend each month on the right. You will later compare these figures with what you really spend.

Components of a Budget

TRACK YOUR ACTUAL MONTHLY SPENDING

- The objective in tracking your actual spending is to get a very clear picture of exactly where you have been spending your money.

- To do this, you need to gather your records from the past year and organize them into expense categories: fixed expenses, periodic expenses, and variable expenses.

- Here are some of the kinds of records and reminders you might collect and examine to help you determine the exact figures for your past spending habits:
  - Canceled checks
  - Check stubs
  - Check registers
  - Receipts
  - Bills
  - Invoices
  - Statements

Fixed Expenses

- These are the major, set expenses you must pay every month like rent, mortgage, car or truck payments, child support, etc. They are the same each month.

- Fixed expenses such as utilities often vary from month to month depending upon the weather.

  - To get an average, look back at your utility bills for at least one year, add up the total you have spent, and then divide that number by 12 to get the average amount you spend per month.
Components of a Budget

Periodic Expenses

- These are expenses you pay regularly, but not necessarily every month.
- They include medical expenses, house and car insurance, property and income taxes, car repairs, etc.
- To determine how much you spend on a specific periodic expense on a monthly basis, gather all of your receipts for that category during the past year and divide the total by 12.
- Many people forget to include their periodic expenses when they prepare their budgets because these are usually payments they don’t make every month.
- They are still ‘regular’ payments because they must be made in certain amounts at certain times.

To stay current on your periodic expenses:
1. Include them in your spending category.
2. Make a note on your financial calendar of when and how much must be paid in that spending category.
3. Put the monthly portion of the total amount you will have to pay into a savings account so that you will have the total payment available on the due date.

Example: Monthly Expense for Car Insurance

- Dee’s car insurance costs $1,200/year. She can’t afford to pay the entire premium at once, so she has been making quarterly payments of $300 each.
- How much should Dee budget each month for her car insurance, even though she doesn’t have to pay it each month?
- $1,200 ÷ $300/month = $40/month

- How does Dee make sure she has $300 each time her quarterly payment is due?
She puts $100 each month into her savings account (where it will earn interest), or into her “car insurance” envelope. Every three months Dee will have $300 to send to her insurance company.

Components of a Budget:

Variable Expenses

- These are usually the best areas to cut back spending.
- They include clothing, eating out, long distance phone calls, cable, newspapers, entertainment, etc.
- To determine how much you spend in each category, you need to track these expenses day by day, week by week, for at least a month.
- Write down every dime, nickel, and penny you spend for the next few weeks.
- It may seem silly to you now to write down every penny you spend on every little thing, especially for four weeks.
- However, you will probably see that some weeks you tend to spend more than other weeks, and some weeks you will have expenses that you don’t have in other weeks.

Money Tracker for WEEKLY Spending

MONTHLY Money Tracker Worksheet

Living Within Their Means

Read one of the case studies on this or the following pages and decide whether the person stayed within his or her budget.

(NOTE: All incomes are after income taxes have been paid.)
**Living Within Their Means**

**Case Study A**
- Lauren earns $43,000 a year as a teacher in a booming suburban school district. She has the following monthly expenses:
  - Savings: $200
  - Rent/mortgage: $850
  - Utilities: $225
  - Transportation: $40
  - Car payments: $20
  - Food/groceries: $125
  - Car insurance: $10
  - Other: $20

Did Lauren spend more or less than she earned? __________
How much? _________

**Case Study B**
- Brian has a retirement pension of $35,000 a year. He has the following monthly expenses:
  - Savings: $150
  - Rent/mortgage: $725
  - Utilities: $300
  - Phone/internet: $100
  - Food/groceries: $225
  - Car payments: $55
  - Car insurance: $77
  - Charity: $0
  - Transportation: $75
  - Utilities: $100
  - Other: $105

Did Brian spend more or less than he earned? __________
How much? _________

**Case Study C**
- Maria is a pre-med student, but she works part-time as a lab assistant at the university. She earns $37,000 a year and has the following expenses:
  - Savings: $100
  - Rent/mortgage: $775
  - Utilities: $265
  - Phone/internet: $225
  - Food/groceries: $375
  - Car payments: $175
  - Car insurance: $148
  - Transportation: $68
  - Charity: $20
  - Horse/rental: $125
  - Other: $165

Did Maria spend more or less than she earned? __________
How much? _________

**Case Study D**
- Suzanne is the executive vice president of a Silicon Valley computer-engineering firm. She earns $130,000 a year and has the following expenses:
  - Savings: $7,480
  - Rent/mortgage: $4,000
  - Utilities: $550
  - Phone/internet: $275
  - Food/groceries: $275
  - Car payments: $700
  - Car insurance: $625
  - Transportation: $375
  - Charity: $550
  - Horse/rental: $365
  - Entertainment: $450
  - Other: $750

Did Marcus spend more or less than he earned? __________
How much? _________

**Case Study E**
- Jeff is a successful superintendent for a small construction company in Texas. He earns $28,950 a year and has the following monthly expenses:
  - Savings: $200
  - Rent/mortgage: $750
  - Utilities: $60
  - Phone/internet: $45
  - Food/groceries: $65
  - Car payments: $155
  - Car insurance: $115
  - Transportation: $112
  - Horse/rental: $40
  - Utilities: $80
  - Entertainment: $65
  - Personal expenses: $10

Did Jeff spend more or less than he earned? __________
How much? _________

**Savings**
MONEY: SAVING YOUR MONEY

- Any successful financial plan includes a regular savings plan, no matter how small.
- Getting into the habit of saving is just as important as how much you save.
- You may only be able to save a small amount at first—even if that’s the difference between eating lunch out every day or packing your lunch.
- If you develop the habit of finding small ways to save now you will find that after your financial situation is more stable, you will be in the habit of saving. You will already have an account with a savings history.
- Remember, if you can just find a way to save just $20 per week, every week for a year, you will have saved $1,040 after one year!
- After five years you will have saved $5,200.

A Tale of Two Savers

The following case study is about two people who saved. Each earned $10,000 a year out of college at 22, but they had done without many things in college, and, now that they had an income, they wanted some of those things. They bought a new car and a very nice wardrobe and took some wonderful trips. But spending their current income involved an opportunity cost. By the time they were 34, Shawn was married, had many responsibilities, and decided he’d better start saving and planning for his financial future. He had also heard that it isn’t what you make but what you save, that determines your wealth. He figured he had 25 to 30 productive years left in his career. So, with new determination, Shawn saved $2,000 a year for the next 32 years until he retired at the end of his 65th year. Which person do you believe had more savings at the end of his/her 65th year? Now let’s see what really happened.

MONEY: SPENDING YOUR MONEY—WISELY

- When establishing your budget, you should have the following information:
  - Your initial estimates and records of fixed, periodic, and variable expenses.
  - Remember to set aside money each month in anticipation of periodic expenses which you know you will have to pay.
- Now you should ask yourself if the amount you spend is greater or less than your average monthly income.
- If you spend more than you make, you must look at those categories where you can spend less on the same item or eliminate it altogether.
- If you make more than you spend, save the extra money and invest it for your future!
A Tale of Two Savers:
The Growth of Ana's and Shawn's Savings

1. How much money had Ana put into savings by age 65?
   C$24,000

2. How much money had Shawn put into savings by age 65?
   ($64,000)

3. How much savings (total wealth) did Ana have at the end of her 65th year?
   ($993,306.59)

4. How much savings (total wealth) did Shawn have at the end of his 65th year?
   ($442,503.99)

5. In money terms, what are the opportunity cost and benefit for Ana?
   (Ana sacrificed the immediate uses she might have made of $24,000, but she has $993,306.59 at age 66.)

6. In money terms, what are the opportunity cost and benefit for Shawn?
   (Shawn sacrificed the immediate uses he might have made of $64,000, but he has $442,503.99 at age 66.)

7. What is as important as the amount saved and amount of time? Why?
   (Saving early means fewer contributions are necessary as compared to saving later. Compounding of interest makes money for you.)

8. What might be an opportunity cost for saving early?
   (Ana gave up buying a nicer car in order to save more.)

9. What conclusions can you draw from this activity?
   (The earlier and longer money is saved, the more savings you will have at the end of the time period. Although Ana saved only $24,000, her return was greater than the return for Shawn, who saved $64,000.)

Timing is Everything

- Financial success is rarely achieved unless individuals choose to postpone some current spending so that they can save some income.
- Start saving early and regularly to take advantage of compound interest and build personal savings into a comfortable nest egg.

Timing is Everything: Conclusion

- As we know, income after taxes can be used for two purposes: spending and saving.
- In considering how you will spend your money in the future, you should keep the opportunity cost of your choices in mind and think about how those choices will affect your future.
- Many young people don't think they have enough income to save. As a result, they don't get off to an early start on a regular saving program. How can this decision be costly in the long run?

  Remember:
  - The amount saved is not as important as saving on a regular basis!
  - The more time you have to save, the more savings you will have at the end of the time period.
  - The more income you choose to save, the more savings you will have at the end of the time period.
  - The higher the interest rate the more savings you will have at the end of the time period.

- Start saving early and regularly to take advantage of compound interest and build personal savings into a comfortable nest egg.
Early Childhood Opportunities Northwest
Head Start, Early Head Start & ECEAP

Presents:

2006 Health & Social Services Fair
Monday, February 13th, 2006
9:00 AM-12:00 PM
St. Luke’s Community Health Ed. Center
3333 Squalicum Pkwy.
Bellingham

Come learn about FREE resources available in our community!

**HOUSING**
- Housing Assistance
- 1st. Time Homebuyers assistance

**HEALTH**
- Fitness
- Immunizations
- Medicaid

**EMPLOYMENT, EDUCATION & TRAINING**
- FREE employment resources
- FREE tuition assistance
- FREE adult education classes

**NUTRITION**
- Fast, Cheap & Healthy meals
- Planning a food budget
- Healthy kids snacks

FREE Parent & Child activities!

FREE prizes! FREE giveaways! FREE demonstrations!
Join Us!
To learn more about the following local resources!

School Services
- Whatcom County
- Readiness to Learn

Employment/Education
- Bellingham Technical College
- Whatcom Literacy Council
- WSU Extension

Domestic Violence/Women’s Services
- Lydia Place
- Mt. Baker Planned Parenthood
- Womencare Shelter

Food/Clothing
- Old Town Christian Ministries

Health
- Whatcom County Health Department
- Animals as Natural Therapy

- Interfaith Family Health Center

Children’s Services
- Blue Skies for Children
- Boys and Girls Club

Family/Community Services
- Brigid-Collins
- Law advocates
- Northwest Justice Project
- Whatcom Dispute Resolution Center
- Whatcom Transportation Authority
- Whatcom Volunteer Center
- YMCA

Housing
- USDA Rural Development Program
- Whatcom-Skagit Housing
Fun and Introduction to Personal Finance

Presented by
The WWU Accounting Students

Purpose of this lesson
- Most students do not know much about personal finance and economics
- Personal finance is learning how to manage your money wisely.
- The payoff for learning personal finance is that it can make you wealthier through making educated choices.
- This lesson introduces ideas that will be explored throughout the study of economics and personal finance.

The Millionaire Game
- Answer each question "True" or "False."
- For each correct answer, you will receive five points.
- For each incorrect answer, you will lose five points.
- For any five questions, you may hold up the "Millionaire" card with your answer. If you answer correctly, you will receive 10 points. If you answer incorrectly, you will lose 10 points.

Questions
- Most millionaires are college graduates (T/F)
- Most millionaires work less than 40 hours a week (T/F)
- More than half of all millionaires never received money from a trust fund or estate (T/F)
- More millionaires have American Express Gold Cards than Sears cards (T/F)
- More millionaires drive Fords than Cadillacs (T/F)
- Most millionaires work in glamorous jobs, such as sports, entertainment, or high tech (T/F)
- Most millionaires work for big Fortune 500 companies (T/F)
- Many poor people become millionaires by winning the lottery (T/F)
- College graduates earn about 65% more than high school graduates earn (T/F)
Questions

• If an average 18-year-old high school graduate spends as much as an average high school dropout until both are 67 years old, but the high school graduate invests the difference in his/her earnings at 8% annual interest, the high school graduate would have $5,500,000 (T/F)

Questions

• Day traders usually beat the stock market and many of them become millionaires (T/F)
• If you want to be a millionaire, avoid the risky stock market (T/F)

Questions

• At age 18, you decide not to smoke and save $1.50 a day. You invest this $1.50 a day at 8% annual interest until you are 67. At age 67, your savings from not smoking are almost $300,000 (T/F)

Questions

• If you save $2,000 a year from age 22 to age 65 at 8% annual interest, your savings will be over $700,000 at age 65 (T/F)
• Single people are more often millionaires than married people (T/F)

Rules for Improving Your Financial Life

1. Get a good education.
2. Work long, hard, and smart.
3. Learn money-management skills.
4. Spend less than you could spend.
5. Save early and often.
6. Invest in common stocks for the long term.
7. Gather information before making decisions.

The Economic Way of Thinking

1. Why is there no such thing as a free lunch? Because of scarcity, we can't have everything we want—whether it's clothes, cars, or lunches. Every time we choose something, we have to give up something else. In other words, everything has a cost.
2. Why do some people have more money than others? They have made wiser decisions regarding education, money management, and lifestyle.
3. How will studying personal finance improve my life? This information will help you make better choices; better choices can lead to greater wealth and a more satisfying life.
The Economic Way of Thinking

4. What is an economic way of thinking?  
A reasoning process that involves considering costs as well as benefits in making decisions.

5. Why do we have to make so many decisions?  
Because of scarcity, we can’t have everything we want.

A Mystery of Two Families

The Robinsons and the Meltons are two families that earn the same income, live in the same neighborhood, are of the same age, and have two children each. Yet the Robinsons are six times wealthier than the Meltons. Why is this?

A Mystery of Two Families

The Meltons are very worried about money. Their credit card balance keeps increasing every month. They have neither the time nor money to improve their education. Although they could sell their house for more than they owe on the mortgage, they have no savings. They hope their children will get scholarships to pay for college.

A Mystery of Two Families

The Robinsons spend time managing their money but not worrying about it. Although they never inherited a dime, Mr. and Mrs. Robinson feel they can easily send their children to college. The $250,000 they have saved is also a good start for their retirement. Both are working to improve their future income. Mr. Robinson is completing a college degree at night, and Mrs. Robinson has been taking weekend seminars offered at no cost by her employer. Both are hoping for promotions.

A Mystery of Two Families

To solve the mystery of the two families, let’s learn some basic points of economic reasoning that will help you make better choices.

The Economic Way of Thinking

6. Are things getting better or worse in the United States?  
Things are definitely getting better. Here are a few examples. In 1970, the average size of a new home was 1,500 square feet, and by the late 1990s, the average size was 2,150 square feet. Only 24 percent of new homes had central heat and air conditioning in 1970, while 81 percent of new homes were so equipped in the late 1990s. In 1970, only 29 percent of households had no car, and only 29 percent had two or more. By the late 1990s, only eight percent of households had no car, and 62 percent had two or more. The average net worth of a household in 1970 was $27,918, while in the late 1990s it was $59,398. You will probably live better than your parents as long as you get a good education and make sound financial decisions. Go for it!
1. People choose

This may seem obvious, but think for a minute about how many people say they "have no choice." In fact, we ALWAYS have a choice.

The Robinsons spend a few hours every week managing their money. They have a budget, record their expenses, and adjust their spending if they are over budget. Their goal is to save 10 percent of their income each month. They investigate how to invest their savings, comparing rates of return and risks.

The Meltons feel they don't have time for this. They are thankful for their two credit cards because without them they could never get the things they want. The Meltons do spend a lot of time watching television. Relaxing is important.

2. All choices involve costs.

Choices come with costs. Because the Robinsons spend time managing their money, they must give something up. Economists say there is an opportunity cost for every choice. The opportunity cost is the most valued option that you gave up because you chose what you did. The opportunity cost is your next best option.

For the Robinsons, the opportunity cost of managing their money is the television they give up. For the Meltons, the opportunity cost of watching television is managing their money.

Making good choices involves comparing the benefits and costs of any decision. The Robinsons are wealthier than the Meltons because of the choices they made.

3. People respond to incentives in predictable ways.

An incentive is a benefit or cost that influences a person's decision. The powerful incentive is money. Money is important because of the stuff we can buy with it and the freedom it gives us to make more choices. People work to earn money, but they also work to accumulate their goods and have a satisfying personal life by managing their money carefully. You can keep more of the benefits of your hard work by having the money to accomplish other goals.

Another incentive is interest in average. Most people would rather have something today than tomorrow. This is why people pay interest when they borrow money and earn interest when they save it.

The incentive for the Robinsons to save is that they will have more goods and services in the future. They will also be able to achieve other goals because they can help others, spend money on recreation, and have a greater variety of choices. This is also an incentive for getting a good education. With a good education, you will earn much more in the future, understand more about the world, and have more control over your life.

4. People create economic systems that influence choices and incentives.

The American economic system relies on markets, choices, and incentives. Americans are free to start a business, get an education, choose an occupation, and buy or not buy an incredible variety of goods and services. American businesses can sell cars, run apartments or fast food, sell cars, sell cars or not, or sell credit cards or pay cash. Every decision has costs and benefits. The system creates incentives that guide our behavior.

The American private-enterprise system has made the United States a land of choices and opportunities. Americans have an opportunity to present themselves and choices. Of course, every choice has an opportunity cost.

The Robinsons take better advantage of the opportunities available to them. They do not view themselves as victims of too little income or of businesses that charge too high prices. Instead, they make choices to increase their future income and spend that income wisely.

5. People gain when they trade voluntarily.

"Voluntary" refers to doing something because you want to, not because someone forced you. Neither the Robinsons nor the Meltons are forced to buy goods and services. They are not forced to work for their employers. They do these things because the benefits are greater than the costs.

Of course, things can go wrong when people trade. If you don't trade carefully and gather sound information, you may find you don't benefit as much from the trade as you expected. The Robinsons take more care than the Meltons before making such decisions.
People's choices have consequences for the future.

If you watch television and read newspaper and magazine advertisements, you may think everyone lives for today. Most people, however, also live for tomorrow. Otherwise, why would we conserve, save, and invest?

Life is not a lottery. Sound decision making—not luck—will affect your future. The choices you make today will affect your future.

The Robinsons have more wealth because they saved more and spent less than the Meltons, even though the Meltons work more. The Robinsons also get more for their income because they compare costs, benefits, and alternatives before making major purchases. Their past decisions have affected their present wealth and lifestyle.

Decision Making

A fundamental law of economics states that there is no such thing as a free lunch.

- Individuals, businesses, governments, and economic systems all face scarcity.
- We must make decisions at the personal, business, and government levels.
- A wise decision involves weighing the benefits and costs of the alternatives.
- There is a cost to every decision.

Scarcity occurs because our resources are limited and our wants are unlimited.

Scarcity exists because human wants always outstrip the limited resources available to satisfy them.

Unfortunately, our resources are limited. We have only so many human resources, natural resources, and capital resources.

- Human resources are the physical, intellectual, and creative talents of people.
- When you get a better education, you improve your human resources. When a nation is better educated, it has more human resources—and a higher standard of living.

Natural resources are gifts of nature.

- Natural resources include water, forests, natural gas, oil, and climate.
- Natural resources are not the only resources a nation needs to become rich.
Decision Making

- Capital resources include all the resources made and used by people to produce and distribute goods and services.
- Tools, factories, and office buildings are examples of capital resources.
- In economics, capital refers to items used to produce something else, not money.
- Money is just a medium of exchange used to make the buying and selling of goods and services easier.
- People like more money because they can use it to buy more stuff.

Decision Making

- Because of scarcity, we must make choices.
- Every choice involves an opportunity cost.
  - The opportunity cost of a decision is the next best alternative that is not chosen.
  - It is the value of what you give up in order to get what you want.

What influences your money attitudes?

- Our attitudes and belief systems are influenced by our peers, family, society, and religious upbringing.
- Understanding these beliefs will help you to gain a greater understanding of your spending patterns.

What influences your money attitudes?

- What messages did you receive from your family? What was their attitude toward saving? Giving? Debt?
- What money messages did you receive from your peers?
  What beliefs and attitudes did you develop as a result?

What influences your money attitudes?

- What money messages did you receive from society?
- What money messages did you receive from your religious upbringing?
  What beliefs and attitudes did you develop as a result?
Financial Institutions

Financial institutions help people manage, protect, and increase their money. Individually, there are different types of financial institutions, which have changed over time. Today, there are several different types of financial institutions to study, we will examine four:

- Commercial banks
- Savings and loan associations (S & Ls)
- Credit unions
- Brokerage firms

Financial institutions offer different types of services. Banks took deposits in the form of checking accounts, savings accounts, and certificates of deposit and then granted credit to qualified individuals. Savings and loan associations were formed because of the huge deposits and loan demands. Credit unions were formed because of the demand for low-interest loans. Brokerage firms were formed to buy and sell stocks on an exchange.

Deregulation in the financial industry has blurred the lines between these institutions and increased competition among them. Deregulation means that laws were enacted to remove some of the restrictions that affected the industry. For example, savings and loans can now offer many types of loans in addition to home mortgages as well as checking accounts. Many commercial banks now offer savings and checking accounts.

Overview of Financial Services

Deposit and Savings Services

<table>
<thead>
<tr>
<th>Types</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checking accounts</td>
<td>Paying by personal check is convenient and safe way to pay bills instead of using cash. The federal government insures deposits for up to $100,000 per depositor.</td>
</tr>
<tr>
<td>Savings accounts and certificates of deposit (CDs)</td>
<td>Savings accounts are safe and convenient ways of saving. CDs are safe, offer somewhat higher interest rates, and require leaving funds on deposit for a specified period of time.</td>
</tr>
<tr>
<td>Automated teller machines (ATMs)</td>
<td>ATMs offer easy access to funds in savings and checking accounts.</td>
</tr>
<tr>
<td>Safe deposit box</td>
<td>For a fee, valuables can be kept in a bank vault.</td>
</tr>
</tbody>
</table>

Credit Services

<table>
<thead>
<tr>
<th>Types</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit cards</td>
<td>Credit cards offer convenient credit up to the amount of the approved credit limit.</td>
</tr>
<tr>
<td>Installment loans</td>
<td>These are loans for major expenditures, such as a car. Payments are made in regular installments.</td>
</tr>
<tr>
<td>Mortgage loans</td>
<td>Mortgage loans enable homeowners to buy a home. Payments are made in regular installments to the lender. Ownership of the property is transferred to the lender if payments are not made.</td>
</tr>
<tr>
<td>Home equity loans</td>
<td>These are loans that use the equity value of a home as collateral.</td>
</tr>
<tr>
<td>Student loans</td>
<td>Student loans are loans based on a student's need rather than collateral.</td>
</tr>
</tbody>
</table>

Investment Services

<table>
<thead>
<tr>
<th>Types</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement accounts including Individual Retirement Accounts (IRAs) and Simplified Employee Pensions (SEPs)</td>
<td>Include people who now receive pension in a tax-deferred basis</td>
</tr>
<tr>
<td>Stocks, bonds, and mutual funds</td>
<td>Stock, bonds, and mutual funds offer the ability to invest in corporations or to buy government bonds</td>
</tr>
</tbody>
</table>

Your Savings Account

Before opening a savings account, call several financial institutions and ask the following questions:

- How much money do I need to open an account?
- What is the minimum balance I will need to keep in the account?
- If the balance is low, a monthly fee might be charged.
- If you keep a minimum balance in your account, the bank might not charge the monthly fee.
- Is there a limit on the number of times I can withdraw money from my account each month?
- Is the interest earned affected when I take money out of the account?
Certificates of Deposit

- Deposits for a specific period of time
- At the end of the time period, you get the dollar amount of the CD back, plus interest
- A CD pays a fixed amount of interest
- Maturity choices are 6 months, 1 year, 2 years, 3 years, etc.
- CDs are good when you have a specific time frame to meet a specific goal
- If you need to take the money out before the end of that time period, you may encounter penalties (like losing 3 to 6 months' interest)

Money Market Deposit Accounts

- To earn a higher interest on these accounts, you may need to leave as much as $2,500 in the account (depending on the financial institution)
- They may limit the number of monthly withdrawals and usually set a minimum amount for each withdrawal
- Some are not insured by the FDIC

Savings in Bellingham

Bank of America
AD: 19622-10046, agent:SID-P082A4256K,AS19648318-1STPCC4A318884
http://www.wecu.com/personal/accountChoices/savings/default.asp
http://www.wecu.com/nuts,cf?name=tnt

Washington Mutual
http://www.wecu.com/personal/accountChoices/savings/default.asp

Checking in Bellingham

Bank of America
http://www.wecu.com/personal/accountChoices/checking/default.asp
http://www.wecu.com/nuts,cf?name=tnt

Washington Mutual
http://www.wecu.com/personal/accountChoices/checking/default.asp

Tips for using your checking account

- Keep track of how much money is in your account
- Write down the amount of each check in your checkbook register
- Subtract the amount of the check from your current balance to know how much money you have left
- If you use an ATM machine, write down those transactions in your checkbook register, too
- Never write checks for more money than you have in your account
- NSF (not sufficient funds) service charges are as high as $20 to $30 for each bounced check
Tips for using your checking account
- When the bank mails you your account statement each month, promptly balance your checkbook by comparing the bank's figures with your own
- Promptly report any errors or lost or stolen checks or ATM cards to the bank or credit union
- Keep your bank statements, check registers, duplicate checks, and cancelled checks with your financial records
- Good way to keep track of what you spend
- May need the information to prepare your tax returns

How to Balance a Checking Account
1. Place all cancelled checks in numerical order when you get them back (if your bank does not send them back, you will receive a statement listing all the checks that have been paid)
2. Place a mark in the check register next to the checks that have been returned and deposits that have been credited (make sure the amount charged to your account is the same as the amount you wrote down in the register)

How to Balance a Checking Account
3. Total up the checks that have not been returned and the deposits made after the statement closing date
4. Take the statement ending balance and add the total of deposits that do not appear on the statement
5. Subtract the total of the outstanding checks (checks you have written and not had returned). Also subtract ATM withdrawals or automated withdrawals you have authorized
6. Deduct any bank fees (ex. to print checks), if there are any
7. The resulting balance should match the balance in your checkbook register
8. If the numbers don't agree, check your math and look for missing transactions.

The Finer Points of Writing a Check
1. Write the current date.
2. Write the name of the person or company you would like to pay. This person is called the payee.
3. Enter the amount of the check in numbers, including a decimal point and cents. Start the numbers as close to the dollar sign as possible.
4. Enter the amount of the check in words. Start writing from the far left side of the line. Follow the dollar amount up to the cent amount as a fraction, over 100. (If there are no cents, write 00.) Draw a line from the end of your writing to the end of the line so there is no additional room to insert words or numbers.
5. Sign your check the same way you signed the signature card when you opened your account.
6. Write the purpose of the check. You may also use this space to write the account or invoice number of the bill you are paying.

Keeping a Checking Account
Instructions: Suppose that you have a checking account. Imagine that you are writing checks to businesses listed below and depositing money in the checking account. Complete the checks and deposit tickets correctly and keep a record of each transaction in the check register.
Keeping a Checking Account

- March 1 Opened account with $250 deposit.
- March 7 Paid $30 to CD Sales to buy some CDs which were on sale.
- March 8 Paid $50 for sweater to A. J. Vitullo Company.
- March 10 Paid $45.10 to the Acme Bicycle Shop for repairs to bicycle.
- March 12 Paid Happy Pets Store $10.00 for pet supplies.
- March 14 Deposited $50 gift money into account.
- March 16 Paid $16 to Lawson High School for two tickets to area basketball game.
- March 18 Took $50 out of account for spending money.

Thank You For Participating

January 21: Budgeting and savings
- Living within your means
- Saving for the future, major life expenses and retirement

January 28: Credit cards, credit scores, and ID theft
- Shopping for credit cards
- Credit protection
- Protection against ID theft online and offline

February 4: Living on your own
- Budgeting for your lifestyle
- Real-world questions to ask when looking for housing
- Financial lessons about relationships

February 11: Taxes
- Types of investments
- Setting investment goals

February 25: Taxes (Hosted by tax professionals)
- Year-round filing options
- How to file taxes
- Tax strategies
Introduction

- To achieve your financial goals in life, you need to identify specific goals and develop a plan that will help you achieve them over time.
- Your financial plan doesn't have to be complicated.
- You don't have to earn a lot of money to have a financial plan.
- Your financial success is the destination of your journey.
- Your financial plan will get you to that destination.
- You will have many choices to make in developing your successful financial plan.

VALUES

Why are values important to a successful financial plan?

- We value the things we think are important.
- If you are not careful, you may end up devoting all your time, money, and energy to the immediate crisis and neglecting other things that are really important.
- One way to help you decide which of your values is the most important is to set priorities.

Values Activity #1 — Values Priority Chart

1. List your additional values in the "Values" section on the left.
2. Rank them in their order of importance to you in the "Priority Order" section on the right.
   For instance, if both financial health and mental health are important to you, which one would you choose to address first if you had to make a choice?

Values Activity #1 — Values Priority Chart

<table>
<thead>
<tr>
<th>Values</th>
<th>Priority Order</th>
</tr>
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<tbody>
<tr>
<td>Rewarding Career</td>
<td></td>
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<tr>
<td>Financial Health</td>
<td></td>
</tr>
<tr>
<td>Mental Health</td>
<td></td>
</tr>
<tr>
<td>Spiritual Health</td>
<td></td>
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<tr>
<td>Physical Health</td>
<td></td>
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<tr>
<td>Family Relationships</td>
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ACHIEVING BALANCE BETWEEN VALUES

- When values conflict with each other, success in one can cause you to have to compromise another.
- The planning process will help you balance your values so that they complement each other.
- The values you have listed will be reflected in the goals that you have set for yourself.
- You will also need to set priorities with your goals.
THE PLANNING PROCESS

1. Assess needs
2. Set goals
3. Make a plan
4. Take action

THE PLANNING PROCESS: Step #1. Assess Needs
Evaluate your current financial situation. In this step, take a broad look at the way things are now. Ask yourself these questions:

- What are my basic needs?
- What else do I need?
- Do I really NEED it? Is there an alternative to buying it now?
- What else do I want?
- Why do I want it?
- How would life be different if I had it? What would change if I had it?

Make a list of wants and a list of needs. Do the lists agree with your values and priorities?

THE PLANNING PROCESS: Step #2. Set Goals
A goal is a specific result you intend to work toward. A realistic goal is SMART:

- Specific — Set specific goals which you can clearly name.
- Measurable — Measure goals by the time and/or money it will take to attain them.
- Attainable — Make sure goals are reasonable and possible.
- Relevant — Make sure your goals fit your needs.
- Time-related — Set a definite target date.

Goals can be classified according to how far in the future you're thinking:

- Short-term: Goals that occur within the next two months.
- Medium-term: Goals that occur two months to three years into the future.
- Long-term: Goals that occur three years or more into the future.

Progress toward goals will depend on spending less than you receive.

There are only two ways to accomplish this: spend less or receive more.

THE PLANNING PROCESS

Receiving More: What determines People's Pay

- Competition
  - Based on productivity, or the worker's ability to produce
- Education
  - Productivity in today's economy depends on the use of information and technology
  - People with more education are usually more productive
- Education and Earnings (median by group):
  - Some college $32,396
  - College graduate $46,384
  - Advanced degree or higher $57,408
THE PLANNING PROCESS

Spending Less

This is where budgeting comes in, which will be discussed later on.

THE PLANNING PROCESS

Next determine the best order for the steps you should take. What do you have to do first, second, third... last? Try to foresee possible roadblocks to reaching your goal, but don’t let these roadblocks discourage you. Thinking about them now will give you the opportunity to prepare for them before they happen.

<table>
<thead>
<tr>
<th>Steps</th>
<th>Possible Roadblocks</th>
<th>Possible Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
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<tr>
<td>2.</td>
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<tr>
<td>3.</td>
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<tr>
<td>4.</td>
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Summary

- Financial success is usually a result of consciously deciding what we really want and need and making a realistic plan to achieve these things.
- Whenever you spend money for anything, you are making a decision, even if it is a small one.
- Before you take out your wallet, remember what you value most in life, what goals you have already decided you want to achieve and when, and the plan you have made to achieve those goals.

THE PLANNING PROCESS:

Step #3. Make a Plan

- Imagine the actions or steps you need to take to get from where you are now to where you want to be.
- Once you can truly “see” the actions you need to take to get to where you want to be, write down everything needed to accomplish each of those actions.
- Be sure you think about the money, time, energy, people, and information that will be required.

<table>
<thead>
<tr>
<th>Action</th>
<th>Resources Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Next determine the best order for the steps you should take. What do you have to do first, second, third... last? Try to foresee possible roadblocks to reaching your goal, but don’t let these roadblocks discourage you. Thinking about them now will give you the opportunity to prepare for them before they happen.

THE PLANNING PROCESS:

Step #4. Take Action

- Take the first step.
- You must actually take the actions listed in your plan.

When you encounter obstacles, persistence wins more often than talent.
Place reminders or pictures of your goals where you will see them every day.

Budgeting
The Purpose of a Budget

- Managing cash requires you to examine how you earn money and how you spend it.
- A cash flow statement is one way of recording how money is spent—what you purchase, the amount, and whether the expense is planned or unplanned.

Components of a Budget

AVERAGE MONTHLY INCOME

- You must begin with an honest determination of how much money you actually have to work with each month.
- There are two ways to look at your monthly income:
  1. Gross income: the total you actually earned
  2. Net income: what is left after your employer takes out deductions for taxes, etc. ("take home pay")
- In order to know how much you can actually spend, you must accurately determine your net (take-home) pay.

Components of a Budget

Exercise #1: Calculate Average Monthly Take-Home Pay

1. Find your gross income or total earnings on a payroll check stub, payroll deductions.
2. Subtract deductions for federal, state, and local taxes; social security; insurance premiums; garnishments; child support; any other employee benefits, retirement or savings deductions, partnerships, etc. $ __________
3. Subtract any other automatic deductions that you have authorized.
   - Auto payments, savings plan, etc. $ __________
4. If you are paid twice a month or bi-weekly, use one of the following formulas to convert your pay to a monthly amount.
   - per week x 26.25 = __________ per month
   - per month x 2.5 = __________ per month
5. Subtract any other sources of income, or if your pay varies seasonally, calculate an average over six months or a year to account for the peaks and valleys.
   - Add this amount to your other regular income. $ __________
   - This is your: Total Average Monthly Income $ __________

Components of a Budget

Exercise #2: Estimate Your Average Monthly Spending

1. Consider each spending category on the left and write how much you think you spend each month on the right. You will later compare these figures with what you really spend.

2. Kinds of records to look at:
   - Canceled checks
   - Check stubs
   - Check registers
   - Receipts
   - Bills
   - Invoices
   - Statements

Components of a Budget

Exercise #3: Track Your Actual Monthly Spending

- Objective: to get a very clear picture of exactly where you have been spending your money.
- To do this, you need to gather your records from the past year and organize them into expense categories: fixed, periodic, and variable.
- Kinds of records to look at:
Components of a Budget

Fixed Expenses
- The major, set expenses you must pay every month like rent, mortgage, car or truck payments, etc.
- They are the same each month.
- Fixed expenses such as utilities often vary from month to month depending upon the weather.
- To get an average, look back at your utility bills for at least one year, add up the total you have spent, and then divide that number by 12 to get the average amount you spend per month.

Components of a Budget

Periodic Expenses
- Expenses you pay regularly, but not necessarily every month.
- They include medical expenses, house and car insurance, property and income taxes, car repairs, etc.
- To determine how much you spend on a specific periodic expense on a monthly basis, gather all of your receipts for that category during the past year and divide the total by 12.
- Steps to stay current on your periodic expenses:
  1. Include them in your spending category.
  2. Make a note on your financial calendar of when and how much must be paid in that spending category.
  3. Put the monthly portion of the total amount you will have to pay into a savings account so that you will have the total payment available on the due date.

Components of a Budget

Variable Expenses
- These are usually the best areas to cut back spending.
- They include clothing, eating out, long distance phone calls, cable, newspapers, entertainment, etc.
- To determine how much you spend in each category, you need to track these expenses day by day, week by week, for at least a month.
- Write down every dime, nickel, and penny you spend for the next few weeks.
- This may seem silly, but the results might surprise you.

Money Tracker for WEEKLY Spending

<table>
<thead>
<tr>
<th>Money Tracker for WEEKLY Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

MONTHLY Money Tracker Worksheet

<table>
<thead>
<tr>
<th>MONTHLY Money Tracker Worksheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

67
Living Within Their Means

Read one of the case studies on this or the following pages and decide whether the person stayed within his or her budget. (NOTE: All incomes are after income taxes have been paid.)

Living Within Their Means

Case Study A

Lauren earns $43,000 a year as a teacher in a booming suburban school district. She has the following monthly expenses:

- Savings: $220
- Food/groceries: $225
- Phone/cable/internet: $55
- Utilities: $100
- Transportation (car/rental/hema): $25
- Car payments: $75
- Charities: $50
- Entertainment: $100
- Othert: $100
- Savings (savings, hair dresser): $20
- Other: $100

Did Lauren spend more or less than she earned? __________
How much? __________

Living Within Their Means

Case Study B

Brian has a retirement pension of $35,000 a year. He has the following monthly expenses:

- Savings: $440
- Food/groceries: $275
- Phone/cable/internet: $27
- Utilities: $100
- Transportation (car/rental/hema): $25
- Car payments: $75
- Charities: $50
- Entertainment: $100
- Othert: $100
- Savings (savings, hair dresser): $20
- Other: $100

Did Brian spend more or less than he earned? __________
How much? __________

Living Within Their Means

Case Study C

Maria is a pre-med student, but she works part-time as a lab assistant at the university. She earns $37,000 a year and has the following expenses:

- Savings: $1,190
- Food/groceries: $775
- Phone/cable/internet: $100
- Utilities: $100
- Transportation (car/rental/hema): $25
- Car payments: $75
- Charities: $50
- Entertainment: $100
- Othert: $100
- Savings (savings, hair dresser): $20
- Other: $100

Did Maria spend more or less than she earned? __________
How much? __________

Living Within Their Means

Case Study D

Suzanne is the executive vice president of a Silicon Valley computer-engineering firm. She earns $130,000 a year and has the following expenses:

- Savings: $3,490
- Food/groceries: $1,400
- Phone/cable/internet: $27
- Utilities: $100
- Transportation (car/rental/hema): $25
- Car payments: $75
- Charities: $50
- Entertainment: $100
- Othert: $100
- Savings (savings, hair dresser): $20
- Other: $100

Did Marcus spend more or less than he earned? __________
How much? __________

Living Within Their Means

Case Study F

Jeff is a successful superintendent for a small construction company in Texas. He earns $28,950 a year and has the following monthly expenses:

- Savings: $2,290
- Food/groceries: $300
- Phone/cable/internet: $50
- Utilities: $50
- Transportation (car/rental/hema): $25
- Car payments: $75
- Charities: $50
- Entertainment: $100
- Othert: $100
- Savings (savings, hair dresser): $20
- Other: $100

Did Jeff spend more or less than he earned? __________
How much? __________

68
MONEY: SAVING YOUR MONEY

Any good financial plan includes two types of savings plans:

- A set-aside account (ex. Dee's car insurance account) which serves two purposes:
  1. Providing a safe place to set the money aside that you know you will need for future payments.
  2. It makes that money work for you by earning interest.

- A "nest egg" account: savings plan for the purpose of accumulating the money needed to achieve your financial goals
  - Provides a certain degree of comfort that money will be available if some unexpected expense should occur in the future.

Any successful financial plan includes a regular savings plan, no matter how small. Getting into the habit of saving is just as important as how much you save.

After your financial situation is more stable, you will be in the habit of saving. Remember, if you can just find a way to save just $20 per week, every week for a year, you will have saved $1,040 after one year! After five years you will have saved $5,200!

MONEY: SPENDING YOUR MONEY — WISELY

When establishing your budget, you should have the following information:

- Your initial estimates and records of fixed, periodic, and variable expenses.
- Include an amount of money each month in anticipation of periodic expenses which you know you will have to pay.
- Now you should ask yourself if the amount you spend is greater or less than your average monthly income.
- If you spend more than you make, you must look at those categories where you can spend less on the same item or eliminate it altogether.
- If you make more than you spend, save the extra money and invest it for your future!

A Tale of Two Savers

The following case study is about two people who saved. Each earned 10 percent interest. Of course, the interest or rate of return for any one year can differ greatly.

Ana Gutierrez started saving when she was 22, right out of college. Saving involves an opportunity cost—the best alternative given up. It wasn't easy to save $2,000 a year then, considering her car loan, car, and rent payments. But Ana was determined to save because her grandmother always said it wasn't what you make but what you save that determines your wealth. So, reluctantly, Ana gave up buying that new car and renting a really nice apartment, and she saved $2,000 a year. After 12 years, she got tired of the sacrifice, yearning for a brand new red sports car and other luxuries. She didn't touch the money she had already saved because she wanted to be sure she would have money for retirement, which she planned to do at the end of her 65th year. But she quit saving and hit the stores.
A Tale of Two Savers

Shawn Wright didn't start saving until he was 34. He also graduated from college at 22, but he had done without many things in college, and, now that he had an income, he wanted some of those things. He bought a new car and a very nice wardrobe and took some wonderful trips. But spending his current income involved an opportunity cost. By the time he was 34, Shawn was married, had many responsibilities, and decided he'd better start saving and planning for his financial future. He had also heard that it isn't what you have earned, but what you have saved, that determines your wealth. He figured he had 25 to 30 productive years left in his career. So, with new determination, Shawn saved $2,000 a year for the next 32 years until he retired at the end of his 65th year.

Which person do you believe had more savings at the end of his/her 65th year? Now let's see what really happened.

### A Tale of Two Savers: The Growth of Ana’s and Shawn’s Savings

<table>
<thead>
<tr>
<th>Year</th>
<th>Ana’s Savings</th>
<th>Shawn’s Savings</th>
</tr>
</thead>
<tbody>
<tr>
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<td>$161,080</td>
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</tr>
<tr>
<td>65</td>
<td>$285,140</td>
<td>$285,140</td>
</tr>
</tbody>
</table>

### Time Value of Money

Suppose your brother or sister owed you $500. Would you rather have this money repaid to you right away, in one payment, or spread out over a year in four installment payments? Would it make a difference either way?

You would probably be better off getting your money right away, in one payment. You could invest this money and earn interest on it or you could use this money to pay off a bill or part of a loan.
The time value of money refers to the fact that a dollar in hand today is worth more than a dollar promised at some future time. A dollar in hand today can be invested in an interest-bearing account that would grow in value over time. The trade-off between money now and money later depends on, among other things, the rate of interest you can earn by investing.

Opportunity cost: the cost of any decision includes the cost of the best forgone opportunity. If you pay $10.00 for a movie ticket, your cost of attending the movie is not just the ticket price, but also the time and cost of what else you might have enjoyed doing instead of the movie. Applying this concept to the $500 owed to you, you see that getting the money in installments will saddle you with opportunity cost. By taking the money over time, you lose the interest on your investment or any other use for the initial $500, such as spending it on something you would have enjoyed more.

Future value (FV) refers to the amount of money to which an investment will grow over a finite period of time at a given interest rate. Future value is the cash value of an investment at a particular time in the future. Start by considering the simplest case, a single-period investment.

Suppose you invest $100 in a savings account that pays 10 percent interest per year. How much will you have in one year?

1. You will have $110. This $110 is equal to your original principal of $100 plus $10 in interest.
2. We say that $110 is the future value of $100 invested for one year at 10 percent, meaning that $100 today is worth $110 in one year, given that the interest rate is 10 percent.
3. In general, if you invest for one period at an interest rate r, your investment will grow to \((1 + r)\) per dollar invested.

In our example, r is 10 percent, so your investment grows to \((1 + 0.10) = 1.10\) dollars per dollar invested. In our example, it is 10 percent, so your investment grows to \((1 + 0.10) = 1.10\) dollars per dollar invested. You invested $100 in this case, so you ended up with $110 \times 1.10 = $110.

Consider your $100 investment that has now grown to $110. If you keep that money in the bank, what will you have after two years, assuming the interest rate remains the same?

1. You will earn $110 \times 0.10 = $11 in interest after the second year, making a total of $100 + $11 = $111.
2. This $111 is the future value of $100 in two years at 10 percent.
3. Another way of looking at it is that one year from now, you are effectively investing $110 at 10 percent for a year. This is a single-period problem, so you will end up with $110 \times 1.1 = $121 total.

This $121 has four parts:
1. The first part is the first $100 original principal.
2. The second part is the $10 in interest you earned in the first year.
3. The third part, is the other $10 you earn in the second year, for a total of $120.
4. The fourth part is $1 which is interest you earned in the second year on the interest paid in the first year: 
\((110 \times 0.10 = 11)\)
Time Value of Money

- The process of leaving the initial investment plus any accumulated interest in a bank for more than one period is reinvesting the interest.
- This process is called compounding.
  - Compounding the interest means earning interest on interest so we call the result compound interest.
- With simple interest, the interest is not reinvested, so interest is earned each period is on the original principal only.

Time Value of Money: Activities

<table>
<thead>
<tr>
<th>Unit</th>
<th>Amount at Start</th>
<th>Interest Rate</th>
<th>Interest Earned</th>
<th>Amount After Interest Earned</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$1,000</td>
<td>10%</td>
<td>$100</td>
<td>$1,100</td>
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<tr>
<td>2</td>
<td>$1,100</td>
<td>10%</td>
<td>$110</td>
<td>$1,210</td>
</tr>
<tr>
<td>3</td>
<td>$1,210</td>
<td>10%</td>
<td>$121</td>
<td>$1,331</td>
</tr>
<tr>
<td>4</td>
<td>$1,331</td>
<td>10%</td>
<td>$133.10</td>
<td>$1,464.10</td>
</tr>
<tr>
<td>5</td>
<td>$1,464.10</td>
<td>10%</td>
<td>$146.41</td>
<td>$1,610.51</td>
</tr>
<tr>
<td>6</td>
<td>$1,610.51</td>
<td>10%</td>
<td>$161.06</td>
<td>$1,771.58</td>
</tr>
<tr>
<td>7</td>
<td>$1,771.58</td>
<td>10%</td>
<td>$177.16</td>
<td>$1,948.74</td>
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<tr>
<td>8</td>
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<td>10%</td>
<td>$194.88</td>
<td>$2,143.63</td>
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<td>9</td>
<td>$2,143.63</td>
<td>10%</td>
<td>$214.36</td>
<td>$2,357.99</td>
</tr>
<tr>
<td>10</td>
<td>$2,357.99</td>
<td>10%</td>
<td>$235.80</td>
<td>$2,593.79</td>
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<td>11</td>
<td>$2,593.79</td>
<td>10%</td>
<td>$259.38</td>
<td>$2,853.17</td>
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<tr>
<td>12</td>
<td>$2,853.17</td>
<td>10%</td>
<td>$285.32</td>
<td>$3,138.49</td>
</tr>
</tbody>
</table>

Timing is Everything

- Financial success is rarely achieved unless individuals choose to postpone some current spending so that they can save some income.
- Start saving early and regularly to take advantage of compound interest and build personal savings into a comfortable nest egg.

Timing is Everything: Conclusion

- In considering how you will spend your money in the future, you should keep the opportunity cost of your choices in mind and think about how those choices will affect your future.
- Many young people don't think they have enough income to save. As a result, they don't get off to an early start on a regular saving program.
Timing is Everything: Conclusion

Remember:
- The amount saved is not as important as saving on a regular basis!
- The more time you have to save, the more savings you will have at the end of the time period.
- The more income you choose to save, the more savings you will have at the end of the time period.
- The higher the interest rate the more savings you will have at the end of the time period.

Thank You For Participating

January 28: Credit cards, credit scores, and E-filing
- Shopping for credit cards
- Consumer protection
- Using credit wisely
- Protection against E-filing online and offline

February 4: Living on your own
- Budgeting for your lifestyle
- Financial questions to ask when looking for housing
- Financial lessons about roommates

February 11: Investing
- Types of investments
- Setting investment goals

February 25: Taxes
- Know your filing status
- Reasons for taxes
- Tax strategies
Credit cards, Credit scores, and Identity Theft

Presented by WWU Beta Alpha Psi students, Jennifer Deger from Clark Nuber, and Peggy Crammack, Market Manager for Whatcom County

Financial Aptitude Test

1. It's always smart to send in the minimum payment due on a credit card bill each month and stretch out the card payments as long as possible instead of paying the bill in full. T/F
2. Your credit record can be a factor when you apply for a loan or credit card, but cannot affect non-credit decisions such as applications for insurance of an apartment. T/F
3. While one or two late payments on bills may not damage your credit record, making a habit of it will count against you. T/F
4. There's no harm in having many different credit cards, especially when the card companies offer free T-shirts and other special giveaways as incentives. The number of cards you carry won't affect your ability to get a loan; what matters is that you use the cards responsibly. T/F

Financial Aptitude Test

7. If you receive an e-mail from a company you've done business with asking you to update your records by re-entering your Social Security number or bank account numbers, it's safe to provide this information as long as the e-mail explains the reason for the request and shows you the company's official logo. T/F

Financial Aptitude Test Answers

1. False
2. False
3. True
4. False
5. True
6. False
7. False

About Credit

1. What is credit?
Credit means obtaining the use of money that you do not have. Obtaining credit means obtaining an individual or a financial institution to voluntarily provide a loan to you in return for a promise to pay it back later, generally with an additional charge called interest.

2. What is an advantage to using credit?
Using credit allows you to use a good or service today and pay for it later. Using credit can help people acquire significant assets and can add to the enjoyment of life.

3. What is a disadvantage to using credit?
(Late fees and late fees interest on the use of their money. Individuals have a specific thing they wish to have today because they are required to pay for goods or services they have already consumed)

4. What do lenders look for when they approve a loan to an individual?
(General, acceptable, and evaluated)

5. Do credit consumers have legal protection?
(General, acceptable, and evaluated)
Common Lenders of Credit

1. Commercial banks and savings and loans are very similar in the types of financial services they provide their customers; these include loans, savings accounts, and checking accounts. Commercial banks and savings and loans are regulated by different agencies.

2. Credit unions are not-for-profit cooperatives—enterprises owned by their members—that provide many of the same financial services as commercial banks and savings and loans.

3. Consumer finance companies lend money to individuals usually for things such as automobiles or household appliances. Often their customers do not qualify for bank credit and therefore pay a higher rate of interest.

Credit Terms

APR: the amount it costs you if you decide to carry a balance (not pay off your credit card in full) each month.
- Can range from 0 to as high as 25% annually.
- To calculate the money you are charged in interest:
  1. Find the APR and divide it by 12 (the number of months in a year). This will show you how much interest you are being charged monthly (18% annually is 1.5% monthly).
  2. Multiply your monthly interest rate by your balance to determine the amount of money you are paying toward interest (also called your finance charges).
  3. This is how much it costs you to borrow. Be careful of introductory rates (teaser rates) because the APR may go up substantially after a few months.

Grace Period: The number of days you have to pay your bill in full before incurring finance charges. Typically the grace period is 25 days. Beware of cards with no grace period! Interest accrues from the moment you charge an item. You don’t get a grace period when you carry a balance.

Annual Fee: This is the amount you pay annually as a cardholder. If you pay your balance each month, you should avoid cards with an annual fee. Some annual fee cards have lower interest rates, so if you carry a balance each month you may actually save money with an annual fee card.

Transaction Fees: You may be charged additional fees for ATM cash advances, balance transfers, late charges and exceeding your credit limit. Some cards also charge a monthly fee for not using the card!

Minimum Payment: This is the least amount you must pay each month to avoid additional transaction fees. Typically this is 2% of the balance. Always pay more than the minimum if possible to avoid paying more finance charges. Here’s why:

For a credit card charging 18% APR with a balance of $2000, the minimum payment will be $35. If you just make that minimum payment, only $5 will go toward getting you out of debt. You'll end up paying over $2500 in interest for 11 years over the life of the loan! Pay just $10 more per month, or $45, and the same debt will be paid off in five years saving you approximately $1400 in interest. Avoid the minimum payment trap.
Credit Terms

Introductory Rate: Shop for credit cards carefully. When you receive a credit card offer in the mail, examine the fine print that comes with the solicitation. Many cards will offer great introductory rates, such as 2.9% APR. Often these rates will rise after a limited period of time (usually six months). After the introductory time period, your APR could go up significantly. Not a good deal if you are carrying a balance.

Credit cards are a great convenience if you use them to your advantage. Why be careful about your credit? More than one million people file bankruptcy every year, primarily because of credit card debt. A bad credit record will haunt you for years. Going overboard with your credit cards can damage your credit rating, making it difficult to make important major purchases later on in life.

Cash or Credit? You Be The Judge

SALE!
Flat-Screen Plasma TV
Regularly $1000 Now
20% off!

Read the four stories below and analyze each person's spending decision regarding the TV sale advertised above.

Cash or Credit? You Be The Judge

Elizabeth wants to buy a new TV, but she just started her babysitting job and she hasn't earned any money yet. She figures once she starts earning income she can save $90 a month in a savings account that earns 3% interest.

Elizabeth learned about inflation in school. Inflation is a general increase in prices. She learned that the annual inflation rate is about 3%.

She decides to save her money and buy the TV next year when she can afford to pay cash for it.

1. Assuming the price of the TV increases at the rate of inflation, how much will the TV cost a year from now? (HINT: $1000 + .03 x $1000)

2. How much will Elizabeth put into her account in the year?

3. Will Elizabeth be able to buy the TV?

4. Will Elizabeth have any money left over?

Cash or Credit? You Be The Judge

David would like to buy the TV and save 20% during the sale. He uses his credit card to pay for it. David is counting on getting a lot of graduation money from his parents' business associates. David knows that his credit card company offers a 28-day grace period, so if he pays off the whole amount, he won't owe any interest.

Sure enough, after his big party, David counts up the checks and he has $800! When he gets his credit card bill at the end of the month, he is able to pay the balance of $800 in full.

1. How long will it take for David to pay off the $800?

2. How much interest will he have to pay?
Cash or Credit? You Be The Judge

Ryan has a credit card. When he spotted the sale, he wanted to take advantage of the $200 savings and buy at the sale price.

Ryan plans to save $90 a month from his job as an office assistant in his dad's insurance business. He plans to pay the credit card company $90 every month until his bill is paid.

1. Use the chart on the next page to figure out how long it will take him to pay off his credit card debt; the first month is done for you.

Cash or Credit? You Be The Judge

Cash or Credit? You Be The Judge

Caitlin really wants a new TV too, and the 20% off sale is very tempting, so she decides to use her credit card and buy the TV now for $8,000.

Caitlin works once in a while for her neighbor—cleaning, babysitting or mowing the lawn—but she doesn't really earn a regular income. She probably won't be able to save much money, so she plans to pay only the minimum required every month on her credit card bill.

(NOTE: Most credit card companies require a minimum monthly payment of at least $10 or 1/50 of the unpaid balance, whichever is higher. So, if you owe $1,000, your minimum payment is 1/50 of $1,000 or $20; if you owe $100, your minimum payment is $10 because 1/50 of $100 is only $2.)
Figuring Simple interest

P—Principal
R—Rate
T—Time

For example, if you borrowed $2,000 at a 12% add-on rate for two years, the interest would be $480 ($480 = $2,000 x .12 x 2). The amount of $2,480 (interest and principal) would be repaid at the end of two years.

Figuring Monthly Payments

MP = (P + R)/N

P = Principal
R = Rate
N = Number of months

Example: Sheila secured a $1,200 loan with 10 percent add-on interest paying $120 a month. She would be paying a total of $1,320.

Let's figure out the APR for Sheila's loan by first looking at the interest that she pays:

$120 = $1,200 (principal) x .10 (interest rate) x 1 (number of years)

New let's figure the annual percentage rate using the APR formula:

APR = (2 x $120)/(1,200 x (12+1)) = 2,880/15,600 = 18.46%

Cash or Credit? You Be The Judge

1. Look at the chart for Carla's Credit Record for the first 23 months and the last 17 months of her payments. The chart shows what happens when Carla makes only the minimum payment. Then answer the following questions.

How much will Carla spend for the $800 stereo? (Total of Column C)

How much interest will Carla pay (Column F) on her purchase?

Methods of Calculating Credit Card Interest

Assume an APR of 18.5% and a daily interest rate of 0.054% (0.00054). For these examples the number of days in the cycle is 30, and only payments have been included.

AVERAGE BALANCE: You pay interest on the average balance outstanding during the billing cycle. The creditor figures the balance in your account on each day of the billing cycle, then adds together these amounts and divides by the number of days in the billing cycle.

Average balance = $100 x 30 days x .00054 = $16.21

$134 INTEREST

ADJUSTED BALANCE: You pay interest on the opening balance after subtracting the payment or returns made during the month.

Opening balance = $1,000

Interest charged = $20

PREVIOUS BALANCE: You pay interest on the previous balance, regardless of payments made during the month.

Opening balance = $300 x 30 days x .00054 = $50.70

PREVIOUS BALANCE:

Opening balance = $300 x 30 days x .00054 = $50.70
So Many Credit Card Offers: What's the Difference?

<table>
<thead>
<tr>
<th>Credit Card A</th>
<th>Credit Card B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual fee</td>
<td></td>
</tr>
<tr>
<td>Interest rate</td>
<td></td>
</tr>
<tr>
<td>Late fees</td>
<td></td>
</tr>
<tr>
<td>Annual fee</td>
<td></td>
</tr>
</tbody>
</table>

If you were to choose one of these credit cards, which one would it be? ____________________________

What are the benefits of the card you chose? ____________________________

What are some of the costs of the card you chose? ____________________________

Your Credit Report

Your ability to qualify for a loan depends on a credit report. A credit report is a record of an individual's personal credit history. It is probably a good indicator of the applicant's character and whether he or she will repay the money as agreed.

When a person applies for a loan, the lender will order a credit report to see how well the applicant has managed credit in the past. A credit report will tell, in detail, how much the person has borrowed, from whom, and whether the bills have been paid on time.

Credit reports are compiled by credit bureaus, which regularly collect information on millions of consumers. Credit bureaus get information from a variety of sources, including stores, credit card companies, banks, mortgage companies, and medical providers. When you fill out an application for credit, the information on that application is also sent to a credit bureau.

Your ability to qualify for a loan depends on a credit report.
Information on FICO Scores & Credit

SMART WAYS TO MANAGE YOUR CREDIT CARDS:

- Pay the balance in full each month.
- Watch out for transaction fees.
- Limit the number of credit cards you have to one or two.
- Don't carry a balance on your credit cards if you can avoid it. If you have to carry a balance, make more than the minimum monthly payment.
- Build a good credit rating by charging a small amount each month and paying the balance in full.

A Word About Debt

DEBT/INCOME RATIO

Before extending credit to you, lenders analyze your income and your expenses to decide for themselves whether you have too much debt. This debt/income ratio is figured with monthly amounts and reveals how good or bad your total financed picture is. To figure this ratio for yourself, add all of your non-housing monthly payments except for your utilities or taxes. Then compare that total with your total gross annual wages divided by 12. If you don't have fixed monthly payments on revolving debts such as credit cards, estimate your monthly payments at 4% of the total amount you owe.

Rule of Thumb

A conservative rule of thumb for consumer credit is the "20-10 Rule." This means that total household debt including your housing payments shouldn't exceed 20% of your net household income. Remember your net income is how much you "bring home" in your paycheck and monthly payments on the debt shouldn't exceed 10% of net monthly income. Another conservative rule of thumb for mortgage debt is the "28/40" rule. This means that your non-housing debt shouldn't exceed 28% of your gross (total income, and your total debt — consumer debt plus housing debt — shouldn't exceed 40% of your gross income.

How Much Debt Can You Afford?

Example:

- Yearly income after taxes and deductions: $25,000
- Monthly income: $2,083 ($25,000/12)
- Amt. of consumer pmts. per month you can afford: (15-20% of your after tax income):

  $2,083 * .15 = $312 to $2,083 * .20 = $417
Manage Your Debt

Being in debt is stressful for a lot of reasons. The main one being loss of control over your financial life. When you earn a dollar, it isn’t really yours until you’re debt free. However, having some debt is inevitable for most people. Here’s a quick look at the various types of debt you may incur and how to best manage them.

**GOOD VERSUS BAD DEBT**

Debt can be further broken down into good and bad debt. Borrowing to pay for a home, for example, is usually considered good debt because you’re purchasing a tangible asset that will generally be worth more over time. Most secured debts are usually considered good debt but there are some exceptions. For instance, new cars lose as much as 20% of their value as soon as they’re driven off the lot.

Most unsecured debts are considered to be bad debt with the exception of student loans. If you complete your degree, the money you borrowed to pay for your education will be returned to you throughout your lifetime by the type of job you’ve chosen to pursue.

It’s never good to carry credit card debt. Interest rates can be staggering, and balances and interest costs will grow when you make irregular or minimum payments.

Payday loans are a relatively new type of debt. Here’s an example of how they work: You write a check for $500 to payday loan company. They give you $300 on the spot. On your next payday they cash your $500 check. The loan company pockets $75 for lending you money; that’s 20% interest for a two-week loan! Most credit cards charge you 20% per year.

**HOW TO REDUCE YOUR DEBT**

So you’ve got a bunch of debt. What do you do? Add up your debts and find out where you stand. You can’t make payoff decisions without a clear picture of what you own. Look at the amounts owed and determine how much you are paying to all of your creditors.

<table>
<thead>
<tr>
<th>Amount Owed</th>
<th>APR</th>
<th>Monthly Payment</th>
<th>Payoff Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>VISA $2000</td>
<td>18%</td>
<td>$35</td>
<td>5 years</td>
</tr>
<tr>
<td>Dentist $150</td>
<td>5%</td>
<td>$25</td>
<td>6 months</td>
</tr>
<tr>
<td>Student Loan $25,000</td>
<td>8.2%</td>
<td>$340</td>
<td>10 years</td>
</tr>
<tr>
<td>Car $6000</td>
<td>9.0%</td>
<td>$150</td>
<td>5 years</td>
</tr>
<tr>
<td>Total $33,150</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Paying $550 every month is going to pay off your debt. The secret to getting rid of debt is to keep paying at least $550 a month until the debt is gone. In six months when the dentist is paid off, take the extra $25 and apply it to the Visa card since it has the highest interest rate.

Keep the payments at $550. To quickly reduce your debt, apply any extra cash to high interest debt. Using this payment-strategy, the debt in this example would be paid off in less than 10 years.

**Tips: How to Get Out of Debt**

- Don’t wait to act
- Create a plan to get out of debt
- Cut expenses
- Sell rarely used items
- Honestly assess your ability to pay and take appropriate action
- Try to increase income
- Keep making payments when debt is paid off
- Consolidate loans
- Limit the number of credit cards you own
- Try to stop most credit card offers from arriving in the mail (call 888-SOFT-OUT)
- Use bankruptcy as a last resort
**LIVING ON YOUR OWN**

**Living on Your Own**

Hosted by Beta Alpha Psi accounting students

With a special presentation by Professor Olson

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**Apartment or Dorms?**

- Benefits of living on campus:
  - Meals are prepared for you
  - There are always people to socialize with
  - Convenient laundry facilities
  - TV/heat/cable and internet included in housing cost
  - You only have to pay once a quarter instead of regular payments to your landlord, cable company, PSE, etc.
  - You don’t have to budget much time to get to class

- Benefits of living off campus:
  - Easier to have a car nearby
  - You can eat what you want when you want (often cheaper as well)
  - Don’t have to pay for expensive TV/internet if don’t want to
  - Can stay year-round (even holidays)
  - Can get a feel of the ‘real world’—grocery shopping, paying rent, cooking, cleaning, etc. (we all have to do it sometime)
  - More privacy (you can have your own room/space, your own bathroom, your own kitchen...you don’t have to be around people all the time)

---

**Finding an Apartment**

- Where to search:
  - Bellingham Herald
  - Listings on 5th floor of VU
  - Flyers/postings around campus
  - Internet: property management sites
    - [http://www.vegetablemarket.com/rental.html](http://www.vegetablemarket.com/rental.html)
    - [http://www.bestfriends.com/rentals.html](http://www.bestfriends.com/rentals.html)
    - [http://www.apartmentguide.com](http://www.apartmentguide.com)
    - [http://www.propertywatch-service.com](http://www.propertywatch-service.com)

- Drive around and look (get a feel of the neighborhood)

---

**Finding an Apartment**

The following questions may be helpful to you while apartment hunting:

- How long is the lease?
- How much is the security deposit? Is it refundable?
- Are water, sewer and garbage charges included in the rent? Will you have to pay utilities?
- Is cable TV/internet included? (Could be desirable or undesirable depending on if you would pay for it anyway)
- Will your stuff fit? How much closet and storage space is there? What are the dimensions of the rooms?
- Does the landlord live on site? Will you get assistance with problems and repairs in a timely manner?

---

**Finding an Apartment**

- What are the neighbors like?
- Are there pet restrictions? How much is the pet deposit?
- What appliances are included? Are there laundry facilities on site?
- Is parking available? If so, is it included as part of the rent? What about guest parking?
- Is there evidence of bugs or rodents in the kitchen cabinets or along baseboards?
- Does the place need repairs or paint? If so, get a written agreement for any repairs or cleaning that will be done before you move in.
Experiences in Bellingham

South campus:
- More apartments
- Easy access to grocery store
- Easy walk to campus
- Convenient if most of your classes are on South campus
- Easy access to the Rec. Center

North campus:
- More houses
- Easy access to downtown Bellingham
- Have to climb a hill to walk to school
- Convenient if most of your classes are on North campus
- Convenient access to the VU and bookstore

Considering a Roommate?

Roommates can be fun to live with and decrease your rent expense, however, there are some important things to consider when choosing your roommate:

- Is the person noisy or quiet?
- What does the person consider dean?
- Is the person able to afford rent every month?
- Does the person often invite people over?
- Will the person often have a boyfriend/girlfriend over?
- Does the person want to pay for expensive amenities (cable TV/Internet)?
- Will the person respect your personal space and possessions?
- Does the person want to split groceries? Keep everything separate?
- Are your living styles compatible? (If you are one of those people that can’t stand a sink full of dishes and the person you want to live with will only clean when they need a fork is this going to be a problem?)

Sharing experiences

The benefits of living with roommates:
- Everything is cheaper!
- You can get a bigger place for your buck
- Rent, internet, cable and groceries can be divided among roommates
- You don’t have to spend the initial outlay for all of the furniture necessary when you live on your own (each roommate contributes to the communal items)
- It is fun, your friends are right there when you want to socialize but you can just as easily shut your door when you want to work
- The cons of living with roommates:
  - Privacy can be very limited
  - You never know what you are getting into if you get a random roommate
  - Generally noisier
  - You have to share the common spaces
  - Cleaning is inevitably an issue

The benefits of living without roommates:
- Can be quiet and a more conducive studying environment (depending on neighbors)
- Don’t have to worry about others paying their share of the bills
- Don’t have to worry about sharing cost of groceries, cleaning supplies, etc.
- Don’t have to worry about cooking for other people
- Can keep a person’s schedule easier

The cons of living without roommates:
- Less people to socialize with (can get lonely)
- Have to do all cooking and cleaning yourself
- Rent is more expensive
- Can’t share the cost of cable TV/Internet

Your Health

With all the other things taking precedence in your life during and right after college, it’s easy to forget about taking care of yourself.

- Be sure you are paying attention to your physical and emotional health.
- What are your eating habits?
  - How and what you eat really impacts how you feel. Try to eat a healthy diet and cook at home — it saves money and is better for you than eating out.
- Many graduates report reduced physical activity and weight gain after college.
  - Staying physically healthy not only keeps you fit, but also boosts your emotional health.
- If you’re relocating, find a physician and dentist within the first six months.
  - Schedule annual checkups with your doctor and cleanings with your dentist twice per year.

Analyzing Your Expenses and Plan Ahead

Start asking yourself, “Exactly where does my money go?” The best way to structure a cash management plan or budget is to understand where your money goes each month, as well as what expenses you can expect throughout the year. To begin, follow these steps:

1. Track your spending. Record each transaction you make.
2. Add up and categorize your expenses at the end of each week (make sure to include all of them).
   - This process will help you identify how much you spend and what your cash flow is like.
3. Subtract your weekly totals from your total income at the end of the month to determine how much you spend and what your cash flow is like.
   - Do you have an excess cash flow, or are you falling short each month?

http://www.bella.net/managingyourmoney/managingyourfinances/managingyourmoney.asp?nav_section=5
Analyze Your Expenses and Plan Ahead

After determining your expenses and cash flow, you’re ready to establish a budget. Money management software can be a helpful tool, or try using the budgeting sheet in the next slides.

Review your budget each month. If you are falling short, think about what can be done to fix this. Earn more? Spend less? You may need to revisit your budget as financial circumstances change in your life.

Shopping Wisely

Before buying something ask yourself, “Do I need this item, or just want it?”

If the item is expensive, ask yourself, “Do I need this item now or can I wait until I can more easily afford it or it goes on sale?”

If you need the item, can you find a comparable one cheaper somewhere else?

Try to avoid impulse buying; make a list before you shop and stick to it, or only take enough money to pay for what’s on the list.

Try to combine shopping trips with other trips to save money on gas.

Make sure to keep track of what you spent the money on so you can plan your budget.

Be A Better Saver

Consider your “needs” vs. “wants.” Where can you save? Can you save money by cutting back on eating out or buying the newer fads and fashion? Are you buying products or services you don’t really need?

Make saving a habit! Deposit (or transfer) money into your savings account automatically.

Pay yourself first! Set aside money for savings at the beginning of each month, rather than waiting to see what’s left at the end.

Set aside your "extra" money into savings.

Pay your bills on time.

िः Late fees
िः Extra finance charges
िः Disconnection of (and re-connection fees for) phone, electricity, or other services
िः The cost of eviction
िः Repossession of cars or other items
िः Bill collectors

 Avoid the expense of check-cashing stores.

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 Avoid the expense of check-cashing stores.

Shopping Wisely

Before buying something ask yourself, “Do I need this item, or just want it?”

If the item is expensive, ask yourself, “Do I need this item now or can I wait until I can more easily afford it or it goes on sale?”

If you need the item, can you find a comparable one cheaper somewhere else?

Try to avoid impulse buying; make a list before you shop and stick to it, or only take enough money to pay for what’s on the list.

Try to combine shopping trips with other trips to save money on gas.

Make sure to keep track of what you spent the money on so you can plan your budget.
Building Good Credit

* Building a good credit rating will have a bigger long-term effect in your life than your grades in college ever will.
  Employers, creditors, apartment managers and insurance agencies are just a few of the people who may access your credit history.
* Establish your credit and have a solid financial plan in place, and you’ll be better equipped to handle big purchases.
* The earlier you start building a positive credit history, the better.

Paying your bills on time is a key component to good credit.

Looking at Insurance

Type of Insurance | Purpose | Examples of Coverage
--- | --- | ---
AUTO | Provides financial protection from losses due to an accident or other damage to a car. |</br>COLLISION | Coverage for the amount your car is worth in the event of a collision. |</br>COMPREHENSIVE | Coverage for any damage to you car in the event of an accident or theft. |</br>HEALTH | Provides payment for certain health-care costs. |</br>RENTER'S | Provides financial protection in case of loss of personal possessions in a rental dwelling. |</br>RESIDENTIAL | Coverage for loss of personal possessions in a rental unit. |</br>HOMEOWNER'S | Provides financial protection in case of loss of personal possessions in a rental unit and due to fire, theft, water damage, etc. |</br>PHYSICAL | Coverage for the repair of damages to the property due to an accident or theft. |</br>PROPERTY | Coverage for the repair of damages to the property due to an accident or theft. |</br>LIABILITY | Coverage for the repair of damages to the property due to an accident or theft. |</br>LIFE | Provides financial protection in case of loss of personal possessions in a rental unit and due to fire, theft, water damage, etc. |</br>DISABILITY | Coverage for the repair of damages to the property due to an accident or theft. |</br>DISABILITY | Coverage for the repair of damages to the property due to an accident or theft. |</br>DISABILITY | Coverage for the repair of damages to the property due to an accident or theft. |</br>

The Big Risk

You have just graduated from high school or college, and you are single. You own a number of assets that you are thinking of insuring, including an automobile, inherited jewelry, a rare coin set, and the contents of your rented apartment.

Your employer provides a health insurance plan you can purchase. Examine the cost and the risk of each of the things you would like to insure below, and circle them. Do not spend more than $2,600; you may spend less. Indicate your choices below.

| Type of Insurance | Purpose | Examples of Coverage |
|--- | --- | ---
| RENTER'S | Provides financial protection in case of loss of personal possessions in a rental unit. |</br>HEALTH | Provides payment for certain health-care costs. |</br>AUTO | Provides financial protection from losses due to an accident or other damage to a car. |</br>COLLISION | Coverage for the amount your car is worth in the event of a collision. |</br>COMPREHENSIVE | Coverage for any damage to you car in the event of an accident or theft. |</br>RENTER'S | Provides financial protection in case of loss of personal possessions in a rental dwelling. |</br>RESIDENTIAL | Coverage for loss of personal possessions in a rental unit. |</br>HOMEOWNER'S | Provides financial protection in case of loss of personal possessions in a rental unit and due to fire, theft, water damage, etc. |</br>PHYSICAL | Coverage for the repair of damages to the property due to an accident or theft. |</br>PROPERTY | Coverage for the repair of damages to the property due to an accident or theft. |</br>LIABILITY | Coverage for the repair of damages to the property due to an accident or theft. |</br>LIFE | Provides financial protection in case of loss of personal possessions in a rental unit and due to fire, theft, water damage, etc. |</br>DISABILITY | Coverage for the repair of damages to the property due to an accident or theft. |</br>DISABILITY | Coverage for the repair of damages to the property due to an accident or theft. |</br>DISABILITY | Coverage for the repair of damages to the property due to an accident or theft. |</br>

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Adding Up Insurance: Game

1.1 will distribute one partial suit of cards (ace through queen) to each group. The cards represent the numbers 1-12: ace = 1, 2 = 2, jack = 11, and queen = 12, etc. Pull a card from the deck of 12 cards. Look at the number. This number represents the item or items affected by the unexpected events during that particular year. For example, if a "6" is selected, the following insurances are affected: automobile, health, and disability (see "card" listing in each insurance box).

2. Locate the "examples" in the following slide Adding Up Insurance.

3. The first example shows the losses suffered by an uninsured student who draws a "6." The "Loss" category of the insurance boxes lists a $4,600 loss for an automobile accident, $1,200 for medical expenses, and $4,400 for lost wages. The sum is shown in columns 5 and 6. This player has no costs for insurance or deductibles in columns 3 and 4.

4. The second example shows the losses suffered by a person with automobile and disability insurance. The premiums for this insurance ($1,800) are listed in column 3.

5. In the fourth column, the deductible or co-pay for each loss should be totaled. If an item is protected by insurance, you will pay the deductible or co-payment, if applicable. A deductible is the portion of the loss that is paid by the insured when the unexpected event happens that is covered by insurance. Since the disability insurance has no deductible, only the $250 for the automobile coverage is included in column 4.

6. The fifth column includes losses that were not insured. No health insurance was purchased so that the health insurance loss of $1,200 would be placed here.

7. The total dollar cost for the person with disability and automobile insurance for the year is noted in column 6 for the second example.

Adding Up Insurance: Game

When you play the game you will not be able to insure all items. Pulling a card from the deck will determine which items will be affected. Uninsured students will experience losses in all categories affected by pulling a card from the deck.

The simulation represents five years. A student in each group needs to pull a card five times. The cards should be shuffled before choosing one for each year. At the end of the five years, you should calculate the total amount spent for the five-year period.

Question for Discussion

1. Which of you had fewer losses?

2. Were the costs of purchasing insurance worth the benefits?

(Yes. In most cases students who purchased insurance were better off than those who did not.)
Main Ideas About Insurance

1. How does insurance work?
(The idea of insurance is to spread a risk over many payers. A pool of people contribute money to buy insurance from an insurance company with the expectation that only a few will actually experience a loss that will need to be covered.)

2. What is a premium? Deductible?
(A premium is the fee paid for insurance protection. A deductible is the amount of loss paid by the insured.)

3. What types of insurance are commonly available?
(Auto, health, renter’s, homeowner’s, life, disability.)

4. Is the cost of buying insurance worth the benefit?
(Accept a variety of answers but stress the general guideline that it is not wise to let a large portion of potential loss remain uninsured.)

Insurance Agencies in Bellingham

- Allstate - Dick Coltran
  2530 Meridian St.
  Bellingham, WA 98225
  (360) 647-1662

- Allstate - Carl Angell
  1901 N. State St. Suite A
  Bellingham, WA 98225
  (360) 676-1822

- Aflac - Ronald Johnson
  2637 Hampton Place
  Bellingham, WA 98225
  (360) 233-7669

- Metlife Auto and Home - Trevor van Woerden
  112 Ohio St, Suite 118
  Bellingham, WA 98225
  (360) 734-2890

Buying a Car

Buying a car is an expensive way to build a credit history.

- Most new graduates can’t afford new car payments on top of their student loan and credit card payments.

Typically, the interest rate on a car loan is higher for borrowers without established credit.

- The annual percentage rate (APR) for first-time car buyers can be as high as 27%.

- Other things to keep in mind:
  - The value of a new car depreciates 20% the minute you drive it off the car dealer’s lot.
  - Insurance costs are usually much higher on a new car, and the bank or financing company will require you to carry full insurance coverage to protect their investment.

EXAMPLE

If you negotiate a new Honda Civic for $15,000 and payment terms of 6 years at 15% APR, your monthly payment would be approximately $317.18, plus the cost of full insurance coverage. At the end of your six-year car loan, you will have paid over $22,800. At that point, you will have a six-year-old Honda Civic, which currently has a resale value of about $4,250.

Managing Auto Loan Costs

If you decide to buy a new car or finance a used car, keep in mind the following ideas that can make your loan work better for you:

- Negotiate for price rather than monthly payment. The sales staff may ask what you want to pay per month instead of working toward a price agreement on the actual cost of the car.
- Pay as little interest over the life of the loan as possible. Generally, this means negotiating a low interest rate and a short loan period.
- Leave your emotions at the door. Don’t be embarrassed to walk out. Some salespeople are experts at making it seem like buying this car is critical to your happiness and success. What’s really important is getting the terms you want and can afford.
- Don’t pay for extras like undercoating and pin striping.
- Test drive several different cars and make a list of features you are looking for.
- If you must buy a car, consider a used car.

Life after graduation

- Considering graduate school?
  - People with advanced degrees earn about $10,000 more annually on average than those with a 4-year degree.
  - Some professions require more schooling.
  - Accountants, lawyers, doctors, dentists, etc.
  - Education is always a good investment and there are many ways to pay for it—be proactive!

- Where will you live and work?
  - Consider the cost of living.
  - Consider the commute.
  - Think about the future—if you plan on staying there for a long time, putting money down to buy a house if you can afford it is better than paying the same money to rent one.
  - Think about location—if you plan on having a family, look at schools and recreation in the area.

What’s Next

February 11: Investing
Hosted by professionals
- Types of investments
- Setting investment goals
- Retirement accounts

February 25: Taxes
Hosted by Tax Professionals
- Know your filing status
- Reasons for taxes
- Tax strategies
TAXES AND ENTREPRENEURSHIP

College Entrepreneurship
Arthur Bichler, CPA
Rob Gilfillan, CPA
Todd Packard, MFP
MOSS ADAMS LLP

MoneySense Program
Western Washington University
February 25, 2006

Why an Entrepreneur?
Creative Freedom
Organizational Freedom
Financial Freedom

Why now?
- Young and fearless
- No obligations
- Poor
- Free advice/research
- Captive market
- Low pay employees

Some Famous College Start-ups
Microsoft
Dell
Netscape
Fedex
Apple
Tripod
TheGlobe.com

Who wants to be an entrepreneur?

Do you have what it takes to be an Entrepreneur?
Sales Mentality vs. Business Mentality

Cash Flow is King!
Sales does not equal cash, and cash is what you need to survive.

The Single Most Important Number in Business
Gross Profit

You want the Right Kind of Sales
The wrong kind can drive you right into bankruptcy

Can you sell?
"It's all about getting and keeping customers."
Western Washington
Wookie Wear
Business Plan

Your Goal:
Preserve your capital long enough
for company to survive on its own

<table>
<thead>
<tr>
<th>Gross Revenue</th>
<th>Right Sales</th>
<th>Wrong Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000</td>
<td>$10,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COGS</th>
<th>6,000</th>
<th>9,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Profit</td>
<td>4,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Overhead</td>
<td>2,500</td>
<td>2,500</td>
</tr>
</tbody>
</table>

Gross Margin = 10%
You need $10 sales for every $1 expense.

Gross Margin = 40%
You need $2.50 sales for every $1 expense.

One is Survival

Go for it, Dude!
and may the force be with you...

MOSS ADAMS LLP
2200 Rimland Drive, Suite 300
Bellingham, WA  U.S.A.

Todd Packard, MFP
Todd.Packard@mossadams.com
Phone 360.676.1920
MoneySense: Campaign for Financial Literacy
Submitted by the Theta Phi Chapter of Beta Alpha Psi

There is a fundamental problem with the understanding of basic economics in the United States. In a 2005 study designed for the National Council on Economic Education (NCEE) to evaluate adult and student understanding of basic economics, results showed that 60% of high school students and more than 25% of adults received a failing grade. While virtually all of the adults in the study believed that economics should be included in high school education, only half of the high school students surveyed said that they had been taught economics in school.¹ Our chapter of Beta Alpha Psi (BAP), the Theta Phi chapter from Western Washington University (WWU), was excited to participate in the 2005-2006 Professional/Service Best Practice Competition because we believed we could make a difference in our community. We made it our goal to help students gain a better understanding of personal finance. To accomplish that goal, our chapter organized a committee and developed the MoneySense Program. The Program was broken down into two portions: one targeted towards college students and the other toward high school students. With community recognition, we were able to meet our goal and gain valuable experience.

The college portion of MoneySense was designed to reach local college students in Bellingham, WA. The colleges we targeted were WWU, Bellingham Community College, and Bellingham Technical College. The program consisted of six seminars, held on Saturday mornings from 10:00 to noon on the WWU campus, hosted by committee chairs Alexa Volwiler and Angela Martin. Seminar topics included: banking and checking accounts, budgeting and savings, credit, identity theft, living on your own, investing, and taxes. The majority of the presentations were taught by our committee chairs who used materials from the NCEE, the Northwest Education Loan Association, and a variety of governmental sources to compile PowerPoint slides and handouts. We were also able to bring in professional presenters to share expertise for half of our presentations. We encouraged attendance by providing free breakfast and donated raffle prizes. Funding was obtained from a private donor and Clark Nuber, an accounting firm in Bellevue, WA.

To conduct the high school portion of MoneySense, we went into local high school classrooms in the Bellingham area. Our high school committee chair, Angela Martin, handled communications with high school teachers to set up times for our BAP committee members to teach. To create our presentation outlines, our committee chairs received NCEE materials from Pamela Whalley, director of the Center for Economic Education at WWU and President of the Washington Council on Economic Education. Additionally, three of our BAP members attended an eight-hour training session to learn how to teach and apply the materials.

The MoneySense Program's effectiveness was largely due to the dedication of our coordinators and committee members. The committee had 19 members—18 from our BAP chapter and one non-BAP member. For the college portion of the Program, our BAP committee members and chairs spent a total of 250 hours in initial planning and an average of five hours each week in execution (30 hours in total). Additionally, a total of 10 hours were spent in the first two weeks by our BAP committee members visiting college classrooms and distributing flyers about the Program. Our non-BAP member designed a MoneySense website, spending a total of ten hours creating and updating the site. For the high school portion, our chairs spent 40 hours in planning and our members spent another 20 hours preparing the materials. Additionally, our BAP members gave 25 total hours teaching the material in the classrooms.

¹ What American Teens & Adults Know About Economics
The MoneySense Program gained wide-spread recognition, allowing us to meet our goal by drawing students to our sessions. To market the Program, our chairs worked closely with WWU’s Communication Department. As a result, our story was run in several local media platforms. We created MoneySense posters which were hung on designated walls around campus and in the dormitories. In total, we reached 57 different college students through our seminars, many of which participated in more than one session. We taught in five high school classrooms and one college class, with about 30 students in each, and led a breakout session at the Head Start Health and Social Services Fair. We found that many of the participants were non-business students who will never take classes in finance and economics. As business majors, we recognize that the concepts taught in these courses are critical to a person’s personal and professional future and it gave us pride to know that we made a difference in their lives. The MoneySense Program will reoccur each year, run by our Assistant Treasurer. It is a great way for our members can give back to the university and its students.