

# FINANCIAL LITERACY

## Six Week Course





# **Module #1**

Budgeting & Cash Flow Management

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# Lecture Notes: Week 1



## Teacher's Corner

Ask students what a financially responsible life means to them?



## Teacher's Corner

It is important to note that creating a financially successful life is less about striking it rich in the stock market and more about tailoring behaviors to the concepts of personal finance that will be highlighted in this course.



## Teacher's Corner

Ask students if they have ever had a job (summer job). What did they do with the money that they earned? Did any of them save for a specific larger purchase or invest in the stock market?



## Teacher's Corner

Consider bringing up the concept of a high yield savings account. Not all savings are "created equal." People should make sure they are keeping it safe, easy, and affordable, but they should still try to earn as much interest as they can - any amount earned is better than nothing!



## Teacher's Corner

The FDIC is an independent federal agency insuring deposits in U.S. banks and thrifts in the event of bank failures. The FDIC was created in 1933 to maintain public confidence and encourage stability in the financial system through the promotion of sound banking practices. The current standard deposit insurance amount is \$250,000 per depositor per FDIC-insured bank.

Welcome to Financial Literacy. Our goal is to learn about important concepts in personal finance and how they can be applied to living a financially responsible life.

## Cash Flow Management Basic Definition and Concept:

Think about maintaining a physically healthy lifestyle through diet and exercise. There is a goal to live a healthy life, a basic framework of principles, and an action plan to follow. While the principles are universal, the action plan can differ for everyone. The same applies to financial health, but financial goals can be hard to define, and the framework may be confusing or unknown (we are taught to eat our veggies, but we don't learn about opening an IRA). Today we will learn about the basic principles of budgeting and cash flow management, so you can keep a money healthy lifestyle throughout life.

### Handout #1 (see page 4)

#### Cash Flow Management

1. Review the image of inflows and outflows through the pipes and see how wealth is simply a function of the amount that inflows that can be kept over outflows.
2. Fill in the outflow section for each category and review the key principles.

We now understand the flow of money coming in and money going out and the importance of categorization to cash flow management. By categorizing outflows between the necessary, discretionary, and investment categories, it is easier to understand where our money goes every month. Knowing where money flows every month is critical to making personal budgeting adjustments as needed. Just like a doctor will diagnose a patient after understanding the symptoms, knowing how money is being spent is akin to tracking symptoms of unhealthy financial behavior.

The most important person in your financial life is yourself! You need to have a good understanding of what comes in, what goes out, and make sure to save.

## Banking Basics: (Keep It Simple!)

Tracking inflows and outflows is important, and the right banking relationship is important since your bank accounts are where inflows and outflows are tracked. The theme here is to "KEEP IT SIMPLE." Your relationship with a bank needs to meet the following requirements:

1. Safe = FDIC Insured and safe online access
2. Easy = Simple access to online banking and functionality
3. Affordable = Avoid any unnecessary fees and expenses

### Handout #2 (see page 5)

#### Banking Basics

1. Review the characteristics of checking, savings, and joint bank accounts.
2. Run through the matching drill for checking vs. savings.

## Key Documents for Personal Cash Management:

1. Bank Statement - Provides a summary of all the inflows and outflows from your bank account (checking or savings) on a monthly basis. The bank statement lets you know the balance when the month started and the balance after all the inflows and outflows for that month. This is a very useful document when trying to organize your inflows and outflows.
2. Credit Card Statements - Provides the summary for the total amount of charges on a credit card for a specific period as well as information regarding unpaid or overdue balances as well as interest rate information. The credit card statement can often be more detailed than a bank statement but can also help break down discretionary spending habits.

## Emergency Funds:

Having developed an appreciation for how money comes in and goes out, we now turn to the importance of an Emergency Fund.

Emergency Savings Fund – Money held in an easy-to-access savings account that maintains an ongoing minimum balance equal to between 3 – 6 months of budgeted necessary expenses. This fund is designed to cover unexpected expenses or to seize strategic opportunities. The Emergency Savings Fund can also be used for setting aside money for short-term planned expenses (i.e., household improvements, new car purchase, family vacation).

**Handout #3** (see page 6)  
Emergency Fund Summary

The homework assignment will ask the students to draft deposit slips and checks for various transactions. Consider handing out Sample Bank Statements (Supplemental Handout), circling 2 deposits and 4 checks from the calendar and going through one of each in class to assist with HW assignment.

**Homework or Classwork** (see page 7)  
Calculating an Emergency Fund

**Homework or Classwork** (see page 8-10)  
Checking: Practical Tips

### Teacher's Corner

Consider handing out Supplemental Handout - Bank Statement (pg. 16) and review in detail.

### Teacher's Corner

Consider handing out Supplemental Handout Credit Card Statement (pg. 17) and review in detail.

### Teacher's Corner

Remind students that this is not a "get rich" account. This is a "protect yourself" account. Remind them of the high yield savings account, and perhaps show a \$20K emergency fund earning 0% vs. 1% compounded over 5 years and note the "free money" in a high yield account.

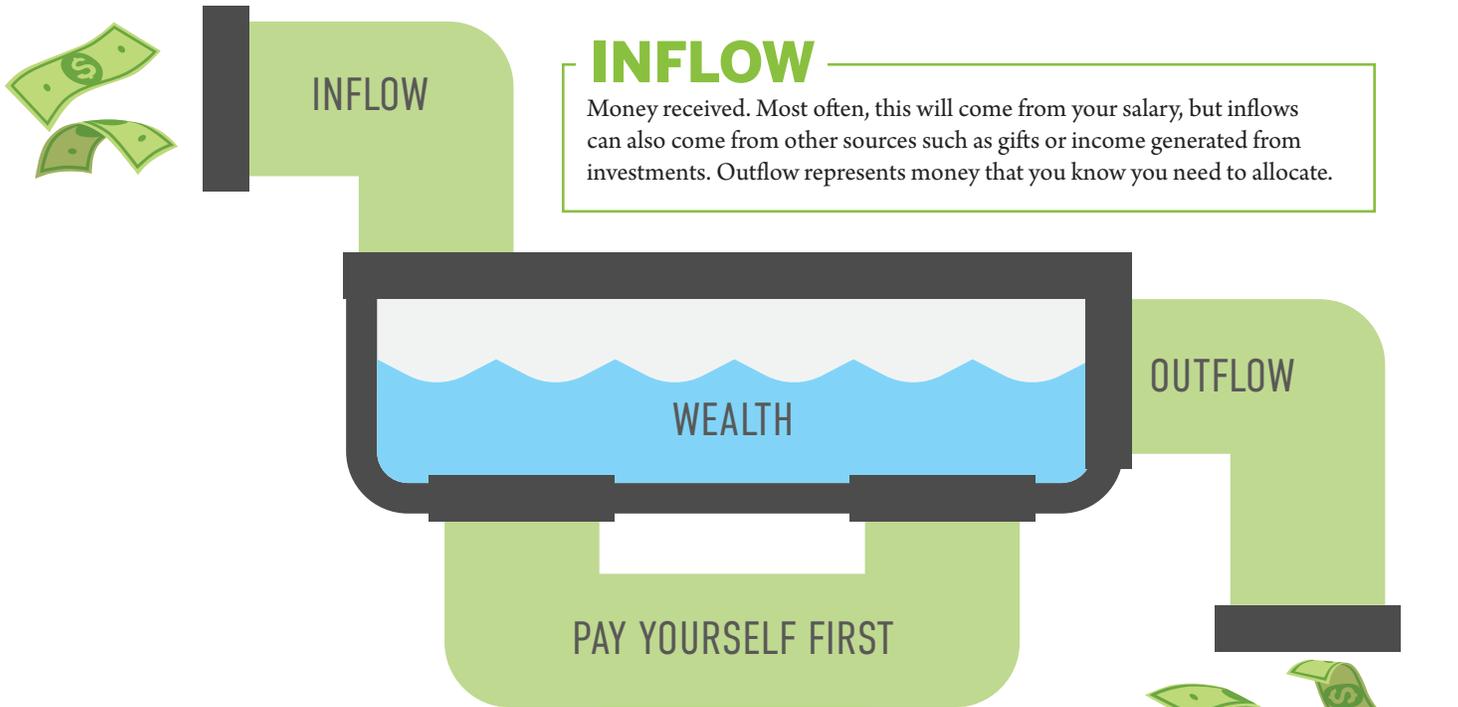
### Teacher's Corner

If time, complete in class, otherwise HW to review

### Teacher's Corner

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# Handout #1 Cash Flow Management



## OUTFLOW

The allocation of money received to various places. There are three general categories of outflows:

Necessary (the "Have To's")

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Discretionary (the "Want To's")

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Savings & Investing ("PYF")

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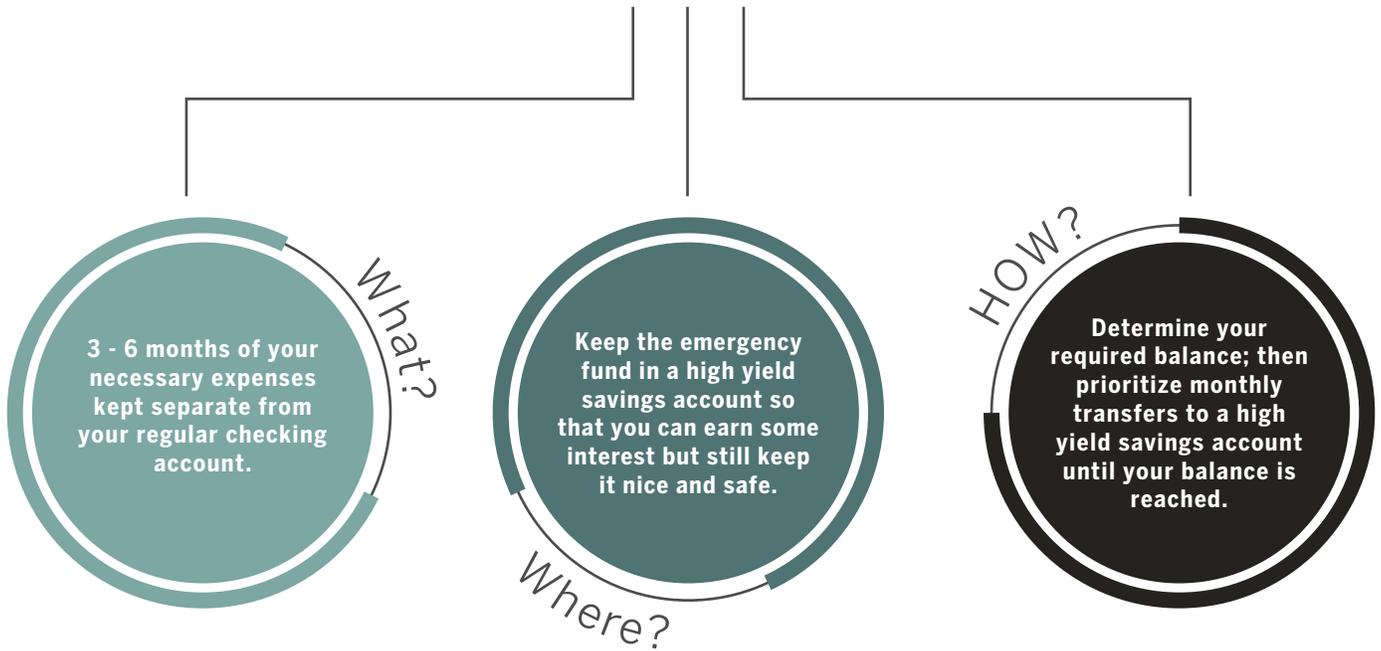
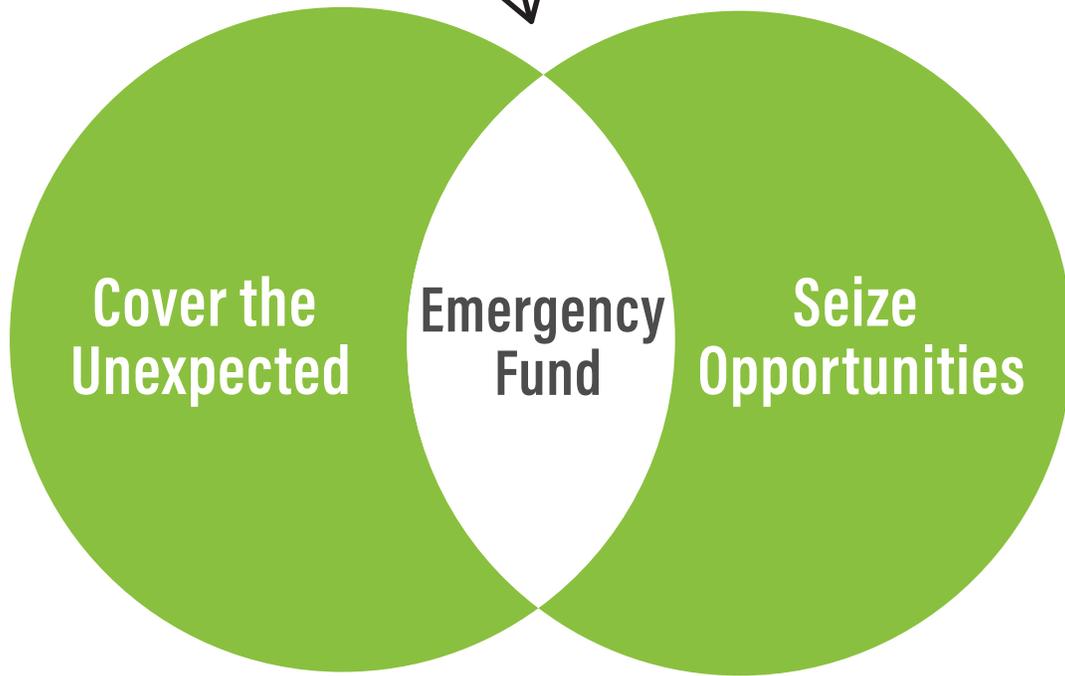
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### Key Principles

1. **Live within your means:** Necessary and Discretionary outflows should never exceed inflows. If they do, adjust your discretionary spending (and possibly find ways to cut to necessary expenses).
2. **Pay yourself first (PYF):** Treat your savings and investing like your other monthly expenses. By setting an amount that you put away in savings, you are forcing yourself to live within your means while growing your wealth.

# Handout #3 Emergency Fund Summary

Sleep Better!



## Monitor & Maintain

Review both your necessary expenses at least annually and check the balance in your emergency fund to make sure you are funded. If the balance needs to be replenished, prioritize your spending to replenish as soon as possible.

# HW or CW Calculating an Emergency Fund

Danny is a recent college graduate who just signed a new lease for an apartment which is just a 10-minute walk from his new job.

Part 1: Review the following pieces of financial information and calculate what Danny's emergency fund balance should be (assume 4 months of expenses needed).

Monthly Rent = \$1,300/month

Insurance = \$840/annual

Utilities = \$100/monthly average

Auto Loan Payment = \$120/month

Student Loan Payment = \$150/month

Gas/Transportations = \$35/month

Groceries/Household = \$400/month

Phone/Internet = \$100/month

**Emergency Fund Balance:** \_\_\_\_\_

Part 2: How much would Danny need to save every month to meet his Emergency Fund goal under the following three timelines?

**12 Months** \_\_\_\_\_

**18 Months** \_\_\_\_\_

**24 Months** \_\_\_\_\_

Part 3: What are two primary purposes of an Emergency Fund?

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# Handout #5 Statement of Net Worth

Statement of Net Worth			
Assets			
Liquid Assets	Institution name	Balance as of _/_/____	Comments
<b>Total Liquid Assets</b>			
Taxable Investments	Institution name	Balance as of _/_/____	Comments
Tax-Deferred Investments	Institution name	Balance as of _/_/____	Comments
<b>Total Investment Assets</b>			
Personal Real Estate	Institution name	Balance as of _/_/____	Comments
<b>Total Personal Real Estate</b>			
Other Personal Assets	Institution name	Balance as of _/_/____	Comments
<b>Total Other Personal Assets</b>			
<b>Total Assets</b>			
Liabilities & Net Worth			
Current Liabilities	Institution name	Balance as of _/_/____	Comments
<b>Total Current Liabilities</b>			
Long-term Liabilities	Institution name	Balance as of _/_/____	Comments
<b>Total Long-term Liabilities</b>			
<b>Total Liabilities</b>			
<b>Net Worth</b>			<i>Reminder: Assets - Liabilities = Net Worth</i>

# Module #2

Debt Management

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# Lecture Notes: Week 3

Welcome to the Debt Management Module of our Financial Literacy course. Our goal for this module is to provide you with an understanding of the role that debt plays in your life and equip you with the tools and strategies to smartly manage debt in your life.

What is debt? An obligation to repay a certain amount of money that was borrowed over time with interest. Simple English: Borrowed money is not free money; it must be paid back with interest, and since banks, credit card companies, and mortgage lenders are not charities—their profit is your expense. It would be foolish to assume that no one should or will carry debt, so let's better understand how debt works, the various forms it takes and what you can do to best manage it.

The 3 broad categories of debt—(especially for young people)

## Handout #1 (see page 23)

### Key Debt Categories

1. Student Debt
2. Housing Debt
3. Consumer Debt—(i.e. everything else!)

It is important to ask yourself these questions anytime you are looking at taking on a debt.

Is this debt to pay for a need or a want?

Is this debt connected to an asset that should appreciate in value over time?

What is the interest rate and repayment terms, and will the monthly payments be manageable within my cash flow plan?

## Quick Classwork (see page 24)

### Debt Matching Drill

## Student Loans/Higher Education:

Paying for college can be tough... the average cost of higher education has continuously grown at a rate that has far exceeded inflation for decades—leading to a significantly larger burden placed on students looking to further their education. It is important to appreciate the basics of funding higher education, since debt may play an important role. Be sure to coordinate with your college guidance counselor. In the attached handout we will go over the primary ways to finance your higher education and highlight how not all student financial aid options are the same!

## Handout #2 (see page 25)

### Student Aid: Accept it responsibly!

## Housing Debt:

Perhaps the most common form of debt will be in the form of a mortgage. A mortgage is simply a loan where the proceeds are used to assist with the purchase of a home. Since most people don't have hundreds of thousands of dollars saved up to pay the full price

## Teacher's Corner

This module could be done in one single lecture, but is likely better presented over two lecture periods. Module #3 on Insurance is shorter and might work to supplement Week 2 of the Debt Management lecture time permitting.

## Teacher's Corner

Quote the famous statistic that only 4 in 10 Americans have enough cash to cover an unexpected expense. This is where crippling credit card debt often finds its source. People typically do not intend to sabotage their personal finances; often an unexpected expense can create a necessity for debt. Having a solid emergency fund is the first line of defense for you!

## Teacher's Corner

Emphasize the simple definition of debt - it is a promise to pay a certain amount of money back over time plus interest. The "plus interest" indicates that it is not free!

## Teacher's Corner

Use this exercised to explain how in the "real world" jargon and terminology might be used that can seem confusing, but appreciate that debt is debt - the type of debt will help you understand how detrimental it can be to your financial health.

## Teacher's Corner

It could be helpful to really facilitate class discussion on the "need to go to college" vs. other options. Vocational schools, Apprenticeship, Community College followed by transfer to 4-year schools are all ways to pursue higher education at a cost lower than a traditional 4-year university.



