

MANAGING YOUR FINANCES



AGENDA

- Starter
- Understanding Deductions
- Bank Accounts
- Your Credit and Credit Score
- Conclusion
- Student Assessment

Objectives

Students will identify the information included on a paycheck and check stub.

Students will understand how bank accounts work.

Students will learn about credit and their credit score.

Materials Needed

- “Words to Know in Finance” activity sheets for each student (Parts I, II, and III)
- “Paycheck” activity sheet for each student (Part I)
- Internet access (Part III)

Starter (5 minutes)

Display the following quote where everyone can see it: “Financial education is more valuable than money.” Ask students what they think this means and have volunteers share their thoughts with the class. Explain that one of the most important aspects of managing your life is financial literacy—the ability to understand how money works and how to manage it effectively.

Distribute copies of the “Words to Know in Finance” activity sheets to students and say, “Today, we are going to start developing a greater sense of financial literacy. These sheets will provide you with definitions of common financial terms.” Instruct students to refer to the activity sheets during the lesson. (All words and phrases that appear on the “Words to Know in Finance” activity sheets are displayed in bold throughout the “Managing Your Finances” and “Making a Budget” lessons.)

Part I Understanding Deductions (15 minutes)

Purpose: Students understand the deductions on their paycheck.

1. Students identify the difference between “net” and “gross” pay.

Display a copy of the “Paycheck” activity sheet where everyone can see it. Say to students, “Rose Arrington has a full-time job where she works 40 hours each week and earns \$20 for every hour she works. If she is paid every week, that would make her weekly salary \$800. However, her paycheck is for \$625. Why do you think that is?” Allow students time to respond and then ask, “Does anybody know the difference between ‘**net pay**’ and ‘**gross pay**?’” Remind students to refer to the “Words to Know in Finance” activity sheets. Explain that gross pay is the amount of money a person has earned prior to any taxes or other **deductions**, and net pay is the final, or “take home,” amount of someone’s **paycheck**.

Clarify for students by saying, “For the hours she worked, \$800 was Rose’s gross pay and \$625 was her net pay, which means she had \$175 deducted from her paycheck. Some of these **withholdings** are voluntary, meaning she gets to decide whether they are withheld each pay period. Others are mandatory, which means they are required to be withheld.” Tell students they are going to learn more about **voluntary deductions** and **mandatory deductions**.

2. Students learn about mandatory deductions.

Distribute copies of the “Paycheck” activity sheet to students and draw their attention to the “Taxes and Deductions” section. Say to students, “Each **pay period**, part of what you have earned is withheld to cover various expenses, and these are either voluntary deductions or mandatory deductions.”

Have a volunteer read the definition of “mandatory deductions” out loud. Then, ask students to put a check mark next to all of the mandatory deductions on the paycheck. Students should identify the following:

- **FICA tax**
- **Federal income tax**
- **State income tax**

Ask if anyone knows the purpose of these deductions. Give students time to respond, then say, “The money that is withheld from your paycheck is used to support many services, from government programs like Social Security and Medicare, to public resources like libraries and schools.”

Point out to students that while many of them will have their pay deposited directly into their bank accounts—known as **direct deposit**—they should still receive a physical copy of their **pay stub** for their records. Emphasize that it is important to always check the information on their pay stub as companies can make mistakes when calculating payroll. Advise students that if they don’t understand the purpose of a deduction, they should ask their supervisor or the person in charge of payroll.

3. Students discuss the value of voluntary deductions.

Ask students what they think voluntary deductions are. Lead them to understand that voluntary deductions—unlike mandatory ones—are optional. Offer examples such as medical coverage, life insurance, and retirement benefits such as a **401(k)** and **SIMPLE IRA**.

Tell students why it is important that they understand and consider the benefits an employer offers. Health insurance and retirement accounts are two of the most common. Remind students to make sure that their decision to join or forgo these voluntary deductions takes into consideration their long-term goals (*for example, choosing not to contribute to a 401(k) until later in life would result in their having less money when it comes time to retire*).

Part II Bank Accounts (15 minutes)

Purpose: Students learn about bank accounts.

1. Students understand what a bank account is.

Ask students to describe a bank account. Lead them to recognize that a bank account is an agreement between a **depositor** and a bank that says the bank will keep their money **in trust** until it is withdrawn.

Ask students what a bank does with the money it keeps in trust. Lead them to understand that banks hold a portion of the money, invest a portion of it in **bonds**, and lend a portion to other people and businesses as loans for attending college, buying a car, purchasing a home, and more.

Explain that there are many types of bank accounts. Two of the most common are **checking accounts** and **savings accounts**. A checking account is primarily used to cover **deposits** and **withdrawals** and is where most of their expenses will come from, while a savings account is used to keep—or save—money for a longer period of time. Add that, since checking account holders access their funds regularly, banks usually provide them with a **debit card**. This card allows them to make charges directly to their account and withdraw funds from **automated teller machines**.

2. Students understand the value of bank accounts.

Ask students to suggest reasons for keeping money in a bank. Write student responses on the board. (Student responses may include safety, convenience, and the ability to earn interest.) Explain to students that there are some things they need to consider when making a decision about opening a bank account. List the following questions where students can see them and elicit responses:

- How often will you need cash? (Both checking and savings accounts will generally allow for withdrawals of cash. Savings accounts are designed to keep money with a bank for a longer period of time, so the number of monthly withdrawals may be limited or account holders might lose interest or be given a service charge if they exceed that amount.)
- How are you planning to pay your bills? (If you are planning to pay your bills by check, you will need a checking account.)
- What is the minimum balance your bank requires? (Some banks require you to keep a certain amount of money in your account and will charge a fee if you drop below that.)

Point out to students that banks vary greatly in the services they offer and that it is always a good idea to find the one that best fits their needs. Add that many banks offer accounts specifically for students.

3. Students learn to manage their bank accounts.

Tell students that a bank account is a major responsibility that will have financial repercussions if not managed properly. Say, “If you make a purchase and don’t have enough money in your account to cover the charge, your account will have a **negative balance**. This can lead to **overdraft fees**.”

Point out to students that one of the best ways to avoid overdraft fees is to make sure they keep track of their income and expenses. Say, “Most banks provide an app that allows you to view the amount of your available funds as well as any **posted** and **pending** transactions. There are also many free apps that help you categorize your spending and set savings goals.” Tell students that not everyone has access to a banking app, then ask volunteers to suggest other ways to keep track of spending. (Student responses may include viewing their account activity online, using a **checkbook**, and keeping receipts.)

Add that, in addition to helping track spending habits, these apps can also help identify incorrect or **fraudulent transactions**. Say, “It’s possible for another person to obtain your banking information and make unapproved charges. By checking your account activity regularly, you can catch suspicious charges and report them to your bank.”

Part III Your Credit and Credit Score (25 minutes)

Purpose: Students develop an understanding of credit.

1. Students understand how credit works.

Say to students, “I’m going to ask you a series of questions. If you agree with what I say, raise your hand.” Then, ask students the following questions, pausing for a brief moment between each to give them time to respond.

- Say, “Imagine there is something you really want that costs \$50, but you can’t afford it right now. What if I told you I’d lend you money so you can purchase it today? Would you accept it?”
- What if you have to pay 20% more than what I lent you if you take longer than 30 days to repay me? For example, if I give you \$50, you’ll owe me \$60 if you don’t repay me in 30 days, and then \$72, and so on.
- What if I said you didn’t have to pay me all back at once? Instead, you could pay me as little as \$10 each month.
- What if I said that, even if you agree to a \$10 per month **payment schedule**, you’ll still be charged 20% on your remaining balance each month? So, if you owe \$50 and pay me \$10, the next month you’ll owe me \$48 instead of \$40?”

Tell students that this is similar to how **credit** works. Lead students to understand that credit is the ability to borrow money to make purchases that you will pay back at a later date. Point out that one of the primary ways people make purchases using credit is through a **credit card**. Say, “Credit cards are an agreement between you and an **issuer** where you promise to pay back whatever they have lent you, plus other agreed-to charges.”

Emphasize that these other “agreed-to charges” are important to keep in mind when using a credit card. Tell students that credit cards can seem like “free money,” but they are not. Explain that every credit card has different terms, but generally, if cardholders pay the full amount of the **credit card balance** due every month, they will not have to pay **interest**. On the other hand, if they pay only the **minimum payment** amount, or anything less than the full balance due, they will pay interest.

2. Students learn about credit scores.

Divide students into three groups and say, “While it could make sense to delay a purchase until you have enough cash to cover the cost, there are times when that may not be possible. I’m going to present each group with a scenario in which someone wants to make a large purchase or is faced with a large expense, and your job will be to research the costs and the options to pay for it.” Then, assign groups with one of the following:

- A couple is looking to buy a two-bedroom house in your neighborhood.
- A high school graduate wants to attend college and is trying to determine whether to stay in-state or go out of state.
- A mother of three young children wants to purchase an SUV.
- A person needs knee surgery.

Inform students they have 10 minutes to gather as much information as possible. When doing their research, have them consider things such as what options are available to the purchasers, what the standard interest rates are, and how much (if any) cash they might need upfront. After 10 minutes have passed, ask volunteers from each group to share their findings with the class.

After each group has presented, stress that there are some purchases or expenses that may not be possible without receiving a loan. Say, “However, financial institutions will not just loan money to anyone. Banks and other institutions want to make sure that you have the ability to repay the money you borrow, and they determine this using your **credit score**. I’m going to play a video for you that shows how your score is calculated.” Then, play the “What is a Credit Score? Kal Penn Explains | Mashable” video at the following link: www.youtube.com/watch?v=f2ortkJfTKw.

Tell students that their credit score is a number that will be associated with them for their entire lives and can determine what they are able to do in their future. Then, say, “Your credit score can go up or down depending on your financial decisions, so it’s important to manage and spend your money responsibly. Always remember, good credit can help us receive loans, which can allow us to obtain things we may want, such as a house, or to accomplish things, like attending college, that may be cost-prohibitive otherwise.”

3. Students learn what to do if they have a credit problem.

Tell students to suggest some things that may happen if they are irresponsible with their credit. List student responses. (Student responses may include, their credit card gets revoked, debt collectors may repeatedly call, they can damage their credit score, and it will be difficult to get loans in the future.)

Ask students, “What do you do when you have a problem that you can’t solve?” Suggest to students that they should ask for help. Explain that if they get into a situation in which they can’t make payments on their debt, the best thing to do is to talk to the people or companies to whom they owe money. Explain that sometimes, those companies will help develop an affordable payment plan to pay off the debt.

Have students consider what they discussed regarding credit cards and offer ways to avoid some of the drawbacks. List student responses. (Student responses might include: never put more on a credit card than you can pay every month, save money until you have enough to make a purchase, make sure you are comfortable with the minimum payment for loans, understand the terms associated with the money you are borrowing.)

Tell students that regardless of whether they get a debit card or a credit card, it is essential to avoid overspending. While money charged to a debit card is removed directly from the user's bank account, you can still get into trouble by depleting your funds. As mentioned earlier in the lesson, many banks will penalize account holders whose funds go below a predetermined amount. Remind students that it is important to monitor their checking account balance and credit card activity regularly in order to stay on top of their finances and avoid potential issues.

Conclusion (2 minutes)

Explain to students that the best way to avoid financial trouble is to manage their money carefully. Remind students of the following **key points** that were taught in this lesson:

- Paychecks show not only the gross amount earned but also all the mandatory and voluntary deductions made.
- Credit cards have strengths, such as ease of use and safety, and drawbacks, such as annual fees and the danger of excessive debt.
- Establishing good credit is essential in order to make larger purchases in the future.

Student Assessment

1. List two mandatory and two voluntary deductions from a paycheck.
2. Name three ways to track your bank account activity.
3. Identify three scenarios in which a person might purchase something using credit.
4. How is a credit score determined?

LESSON EXTENSIONS

Using Quotations

“Never spend your money before you have it.”

Discuss the meaning of this quote with your students. Then, have them write about how it could apply to bank accounts as well as debit and credit cards, and when this quote may not be sound advice (*for example, home mortgages, student loans, and car financing*).

Writing in Your Journal

Have students write about their financial goals, making sure to include what they would like to purchase someday, what portion of their income they would like to put into savings, if they would prefer to use a debit or credit card (*or both*), and the rules they will lay out for themselves to avoid financial trouble.

Have student volunteers present their journal entries and discuss as a class.

Homework

Have students research local banks and determine, based on fees and requirements, which one provides the best services for their needs. Tell students that most banks have different types of checking and savings accounts. Encourage students to learn the differences between the accounts banks offer and the steps they need to take in order to open an account. Have volunteers share their findings with the class.

Using Technology

Explain to students that being patient and doing research on pricing trends can save them money. Tell students that there are several apps, websites, and web browser extensions whose purpose is to save them money by automatically applying coupons to purchases or tracking an item's price. Have students identify three ways they can use technology to save money (*for example, Honey, Mint, Keepa*).

Homework

Have students track their spending habits for one week, writing down every expense no matter how small. At the end of the week, have them review their spending data (you can also encourage them to categorize their expenses into “essential” and “nonessential purchases”) and write about what surprised them and what they learned.

Additional Resources

Have students read “Money Tips For Teenagers: Your Future Self Will Thank You” at <https://www.listenmoneymatters.com/money-tips-for-teenagers/>. Ask students to comment on the article and share their favorite tips with the class.

WORDS TO KNOW IN FINANCE

401(k) – a retirement plan offered by some employers that allows employees to save and invest in their retirement

automated teller machine (ATM) – a machine that allows people to complete basic transactions, such as checking their account balances, withdrawing or depositing funds, or transferring money between accounts

bonds – loans to a company or government that pay a fixed rate of interest to the lender over time

checkbook – a book of blank checks

checking account – a bank account that allows deposits and withdrawals; funds can be withdrawn through checks, debit cards, and more

credit – the ability for someone to borrow money and pay it back at a later date

credit card – a plastic or digital card that allows people to make purchases on credit

credit card balance – the amount of money owed to a credit card company

credit score – a number assigned to a person based on factors such as their ability to make payments and the amount of money they owe; the higher the score, the more likely a borrower is to be able to repay loans

debit card – a plastic or digital card that deducts money directly from a checking account to make purchases

deductions – items withheld from a person's pay, usually relating to benefits such as health-care or retirement funds

deposit – the placement of money into a checking or savings account

direct deposit – an electronic payment directly to an employee's account by an employer

fraudulent transaction – a transaction that was unauthorized by an account holder

gross pay – full amount of pay received before withholdings and deductions

interest – a charge incurred for borrowing money, usually as a percentage of the money owed

issuer – a company that provides credit cards

minimum balance – the minimum dollar amount a bank requires its customers to keep in their bank accounts; dipping below this amount can result in fees

WORDS TO KNOW IN FINANCE

(continued)

minimum payment – the lowest amount of money required to be paid on a loan or credit card balance each payment due date

negative balance – an account balance of less than zero, indicating that more money has been spent than was available in the account

net pay – amount of pay remaining after deductions from a person’s gross pay

online banking – known as internet banking or web banking, an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution’s website or app

overdraft fee – a fee incurred when a bank covers a payment that is greater than the available funds in a checking account

pay period – the recurring schedule that determines how frequently a person is paid

paycheck – a check or payment for salary or wages

payment schedule – a schedule of when repayment is made between a borrower and a lender

pay stub – a piece of paper accompanying each paycheck that lists gross pay, withholdings, deductions, and net pay

pending transaction – an approved transaction that may be reflected in your account balance but has yet to be fully processed

posted transaction – an account transaction that has been fully processed

savings account – a bank account that earns interest and is meant to hold funds for an extended period of time

SIMPLE IRA – a retirement plan designed for small businesses that allows employees to save and invest in their retirement

state and federal unemployment taxes – amount of pay withheld to cover unemployment taxes

union dues – regular payments made to labor unions (which are organizations that represent collective interests of employees) to cover the cost of membership

withdraw – to take money out of an account

withholdings – mandatory items withheld from a person’s pay, such as income taxes, Social Security taxes, and unemployment taxes

PAYCHECK

Burke Food Supply Company
 123 Avenue Q
 Los Angeles, CA 90019

Dolores Lopez
 714 Ivy Road
 Los Angeles 90018

Check number: 7207869
 Pay period ending: 8/14/20XX

Hours and Earnings

Taxes and Deductions

Description	Amount	Description	Current Amount	Y-T-D Amount
Rate of pay Reg.	15.00	FICA Tax	22.95	757.35
Hours Worked	20	Fed. Income Tax	23.43	773.19
		State Income Tax	2.82	93.06
		State Disability Tax	3.00	99.00
		Union Dues	2.00	66.00
Gross Pay	300.00			
Net Pay	245.80			
Total Gross Y-T-D	9,900.00	Total	54.20	1,788.60

Statement of earnings. Detach and keep for records.

Burke Food Supply Company
 123 Avenue Q
 Los Angeles, CA 90019

7207869

Date: August 14, 20XX

Pay to the order of

Dolores Lopez
 714 Ivy Road
 Los Angeles, CA 90018

\$*245.80**

Two Hundred forty-five And 80/100 **DOLLARS**

City Savings & Loan
 23 Sebastian St.
 Los Angeles, CA 90230

Joseph W. Burke

|: 61777 |: 614728066 ||* 7207869