

## **UNIT 18 - EVENTS AFFECTING THE PLAN (11 days)**

This concluding unit addresses how to cope with uncertainty and change as they affect one's financial plan. The unit first focuses on how to best take advantage of unexpected opportunities and how to protect oneself against loss. It then takes a broader view, helping students to analyze and foresee the effect of government actions and economic events so as to successfully adapt their budgets and personal financial plans over time.

### **EPF.17 The student will demonstrate knowledge of personal financial planning by**

***b) identifying anticipated and unanticipated income and expenses***

**(BUS6120.101)**

Day 1 Dealing with unanticipated events

### **EPF.14 The student will demonstrate knowledge of the role of insurance in risk management**

***a) evaluating insurance as a risk management strategy***

**(BUS6120.081)**

Day 1 What is insurance?

### **EPF.14 The student will demonstrate knowledge of the role of insurance in risk management by**

***b) distinguishing among the types, costs, and benefits of insurance coverage including automobile, life, property, health, and professional liability insurance***

**(BUS6120.082)**

Day 1 Auto insurance

Day 2 Property and professional liability insurance

Day 3 Life and health insurance

### **EPF.14 The student will demonstrate knowledge of the roles of insurance in risk management by**

***c) explaining the role of insurance in financial planning***

**(BUS6120.083)**

Day 1 Protection or investment

### **EPF.17 The student will demonstrate knowledge of personal financial planning by**

***c) examining components and purposes of a personal net worth statement***

**(BUS6120.102)**

Day 1 Calculating net worth

### **EPF.17 The student will demonstrate knowledge of personal financial planning by**

***e) investigating the effects of government actions and economic conditions on personal financial planning***

***f) explaining how economics influences a personal financial plan***

**(BUS6120.104)**

Day 1 – Taxes

Day 2 – Economic conditions

**EPF.17 The student will demonstrate knowledge of personal financial planning by**  
*f) explaining how economics influences a personal financial plan*  
**(BUS6120.101)**

Day 1 Understanding decisions and choices

**Evaluation Day**

**EPF.17 The student will demonstrate knowledge of personal financial planning by**  
*b) identifying anticipated and unanticipated income and expenses*

## Day 1 - Dealing with unanticipated events

### Content Knowledge

Unanticipated expenses can throw a budget off. Likewise, unanticipated income can too easily be wasted without showing a benefit or progress towards a short-term or long-term goal.

#### Vocabulary

**Allowance** - A sum of money paid regularly to a person, often by a parent to a child; sometimes paid in compensation for services rendered.

**Anticipated Expenses** – Regular payments that must be made to cover certain regular expenditures. These could include rent, utility bills, and groceries.

**Anticipated Income** – Regular receipts of funds that come as part of a contractual obligation. These can include wages, salary payments or certain conditional payments such as scholarships.

**Bonuses** – An amount of money received in excess of a previously agreed upon amount, often in recognition of exceptional service or completion of an important project.

**Educational Grants or Scholarships** – Funds received to help offset the costs of education. They are often conditional on maintaining grades and/or other factors.

**Fixed Costs** - Costs which remain the same each month.

**Gifts** – Unanticipated receipt of funds or other things of value.

**Inheritances** – Gifts received from another party upon their death, also known as bequest.

**Salary** - A regular payment, often at monthly or biweekly intervals, made by an employer to an employee, especially in the case of professional or white-collar employees. Salaries are paid for services rendered and are not based on hours worked.

**Unanticipated Expenses** – Expenses that are not foreseen and may happen at irregular intervals. Examples can include medical expenses, auto or appliance repairs or losses from natural disasters.

**Unanticipated Income** – Payments received that are not foreseen or may happen at irregular intervals. These can include bonuses and gifts.

**Variable Costs** – Costs are anticipated but may vary from month to month. Examples may include entertainment, hobbies or certain educational expenses.

**Wage** - Payments for labor services that are directly tied to time worked, or to the number of units of output produced.

#### Virginia Board of Education Framework

Examples of anticipated income:

- Salary
- Allowance
- Wages
- Educational grants or scholarships

Examples of unanticipated income:

- Gifts

- Bonuses
- Inheritances

Examples of anticipated expenses:

- Fixed costs, which remain the same each month (e.g., rent, house payment, automobile loan payment)
- Variable costs (e.g., video rentals, restaurant meals, sports activities)

Examples of possible unanticipated expenses:

- Car repairs
- Medical bills
- Losses from natural disaster or theft

## Teaching Tips

- 1) Begin the lesson by asking: What would you do if you won a large sum of money in a raffle? How much, if any, would you put toward an investment or savings? Why? How would you finance a major setback (e.g. apartment catching fire and all of your possessions are lost, or a major accident puts you or a member of our family in the hospital)? Have you known people who experienced such a major setback? Were they able to come back from it relatively unscathed, or did it become a long term problem?
- 2) Explain that having a financial plan will not eliminate the bad, but it can enhance the good and minimize the bad. Having a “rainy day” fund, or putting unanticipated income into retirement or savings can provide a cushion for unanticipated expenses.
- 3) As an introduction to the following day, ask if they are aware of any strategies in addition to saving, to address unanticipated losses. Probe what they know, or think they know, about insurance, and record their remarks in order to address any misconceptions in the coming days.

## Lessons and Resources

Financial Fitness for Life Grades 9-12 Lesson 1: How to Really be a Millionaire

Financial Fitness for Life Grades 9-12 Lesson 8: Managing Your Money

Your Credit Counts Challenge Section 1: Income and Choices

**EPF.14 The student will demonstrate knowledge of the role of insurance in risk management**

*a) evaluating insurance as a risk management strategy*

## **Day 1 - What is insurance?**

### **Content Knowledge**

Everyday life involves many risks. The degree of loss associated with risk varies according to the risk itself. To guard against risks, individuals and businesses purchase insurance. There is a wide array of insurance policies available within the insurance industry. To determine your insurance needs, individuals and businesses should first assess their potential risks, financial position, and financial goals. Overtime, individuals should reassess their potential risks and finances. For example, one should reevaluate their insurance needs when major events happen in their life. (i.e. marriage, children, renting/purchasing a home, relocating, etc.) Sometimes individuals see insurance as a gamble and a waste of money rather than a way to protect their assets in case of accident. However, it is recommended to evaluate insurance decisions based on a cost/benefit analysis.

There are many types of insurance, including automobile, life, property, health, and professional liability. Individuals have many choices to make in selecting insurance.<sup>1</sup>

#### **Vocabulary**

**Insurance** – A practice or arrangement whereby a company provides a guarantee of compensation for specified forms of loss, damage, injury or death. People obtain such guarantees by buying insurance policies, for which they pay premiums. The process allows for the spreading out of risk over a pool of insurance policyholders, with the expectation that only a few policyholders will actually experience losses for which claims must be made. Types of insurance include automobile, health, renter's, homeowner's, disability and life.

#### **Virginia Board of Education Framework**

Insurance can reduce financial risk.

There are pros and cons of insurance as a risk management strategy in financial planning.

Insurance provides protection from loss due to unforeseen or unavoidable events or circumstances (e.g., illness, death, fire, theft, liability, act of nature, automobile).

### **Teaching Tip**

- 1) Share with the class a listing of potential risk that you faced this morning on your way to work. (see list below for suggestions)
  - a. A power outage overnight caused your alarm clock to not work, thus you overslept and are late to work.

- b. Your coffee maker did not work, you did not have your morning cup of coffee, and you are in a bad mood. You are rude to your friend. Your friend does not want to hang around you anymore.
  - c. You trip over the coffee table, fall, and break your arm.
  - d. You are in a car accident on the way to school
  - e. Your region experienced out of the ordinary heavy rain, your basement is flooded
- 2) Ask your students to assess their potential risks. Ask for volunteers to share their risks. Make a list of risks on the board.
  - 3) Discuss the disadvantage of risk: loss. Discuss the potential cost of loss associated with risks that have been discussed in class.
  - 4) Ask the students how they can guard against risk. Make a list of suggested way on the board.
  - 5) Conduct the lesson “Why Insurance and How Does It Work” from the lessons list below. This lesson contains a day in the life of a teenager activity, and an interview with an insurance policy.
  - 6) Show the video on the history of insurance listed in the Lessons and Resources. After completion, ask students about the protective features of insurance. Who was protected in Hammurabi’s time? In medieval times? What were they protected against? How did pooling money provide protection? Why would it matter what the level of risk is? How does risk relate to size of the premium? Does it provide an incentive to reduce risk, if possible? How?

## **Lessons and Resources**

Virtual Economics: Insurance Lessons Lesson 1: Why Insurance and How Does It Work

Financial Fitness for Life Grades 9-12 Lesson 10: Managing Risk

*Video curriculum*

Risky Business: What Every Teenager Needs to Know About Living Smart part 4, Expect the Unexpected: Managing Risk and Insuring Your Future. Available upon request from VCEE.

*Video*

History of Insurance

<http://www.youtube.com/watch?v=8AGiWyJXvm0>

**EPF.14 The student will demonstrate knowledge of the role of insurance in risk management by**

***b) distinguishing among the types, costs, and benefits of insurance coverage including automobile, life, property, health, and professional liability insurance***

## **Day 1 - Auto insurance**

### **Content Knowledge**

The freedom of the open road is very exciting for most teenagers. However, with the reward of this freedom comes many a wide range of possible risks. To reduce these risks, many states require drivers to purchase automobile insurance. The Commonwealth of Virginia has an automobile insurance requirement. To purchase license plates, one must certify that the vehicle is covered by the minimum insurance requirements or pay the uninsured motor vehicle fee. Virginia requires minimum insurance coverage: Bodily injury/death of one person \$25,000, Bodily injury/death of two or more persons \$50,000 and Property damage o \$20,000 for minimum coverage.

Evaluating automobile insurance policies can be a daunting task. There are many variables to be considered. These variables include such things as Bodily-Injury Liability, Property-Damage Liability, Collision, Comprehensive, Medical Payments, Personal Injury, Deductibles, and Discounts. Some people purchase minimum coverage and are surprised by what is covered and what isn't. However, it is recommended to evaluate automobile insurance decisions based on a cost/benefit analysis. Comparison shopping is also recommended.

#### **Vocabulary**

**Assigned Risk** – A driver or class of drivers that would be denied insurance coverage but must carry auto insurance under state law.

**Collision** – Insurance that pays for repairs to an automobile, or replacement of the automobile (minus the deductible in each case), if the automobile is hit by another car.

**Comprehensive** – Insurance that pays for repairs to an automobile, or replacement of an automobile (minus the deductible in each case), if the automobile is stolen or damaged by something other than a collision (for example, by a hail storm).

**Deductible** – Regarding insurance policies: A set amount an insured person must pay per loss before the insurance company will pay a claim.

**Liability** – Automobile insurance that pays for costs of bodily injury and property damage when the insured person damages someone or something with his or her car.

**No Fault** – In some states, insurance claims are not paid by the party at fault for an accident. Instead, each party in an accident is compensated by their own company, regardless of which party caused the accident.

**Personal Injury Protection** – A portion of auto insurance that pays for medical injuries.

**Uninsured/Underinsured Motorist** – Insurance coverage that will pay a driver who is injured or otherwise suffers damages due to actions of a driver of another vehicle who is uninsured or does not cover sufficient insurance to pay all the damages.

#### **Virginia Board of Education Framework**

Important topics to understand about automobile insurance include

- deductible
- collision
- comprehensive
- liability
- personal injury protection
- no fault
- uninsured/underinsured motorist
- assigned risk

Umbrella liability insurance provides additional protection should other policies not be sufficient.

## Teaching Tips

- 1) Ask your students the following and discuss:
  - a. How many have their driver's license?
  - b. How many have their own car?
  - c. How many have automobile insurance?
  - d. What type of automobile coverage do you have?
  - e. In order to operate a vehicle in the Commonwealth of Virginia, are you required to have automobile insurance?
- 2) Have your students access the following website and read about automobile insurance requirements for the Commonwealth of Virginia.  
<http://www.dmv.state.va.us/webdoc/citizen/vehicles/insurance.asp>
- 3) Have your students access the following "Teenagers Guide to Auto Insurance" brochure, or print copies and distribute to your students.  
[http://www.scc.virginia.gov/boi/pubs/auto\\_teen.pdf](http://www.scc.virginia.gov/boi/pubs/auto_teen.pdf)
- 4) Instruct your students to read the brochure.
- 5) Assign your students to develop a PowerPoint presentation to persuade a fellow teenager the importance of purchasing auto insurance. Have the students discuss each type of insurance completely.
- 6) Invite an insurance agent into your classroom to explain different types of automobile coverage.
- 7) Use Lesson 3 listed below to discuss varying types of auto insurance.
- 8) Use the Risky Business activity below to help students understand the business of auto insurance underwriting. Are there some things they can do to keep the cost of their premium down? Are there factors affecting the cost that are outside of their control? Why is that?

## Lessons and Resources

Virtual Economics: Insurance Lessons Lesson 3: Everything You Ever Wanted to Know About Automobile Insurance

*Online*

Risky Business: What Every Teenager Needs to Know About Living Smart Activity 4.2, Choosing Sides: Which Drivers Would You Insure? Available upon request from VCEE.  
<http://riskybusiness.councilforeconed.org/resources/wlg/RiskyBusiness.4.2r.pdf>

Several publications on auto insurance from the state Bureau of Insurance can be found at:  
<http://www.scc.virginia.gov/boi/pubs.aspx>

Show Me the Money (lesson)

<http://www.econedlink.org/lessons/index.php?lid=388&type=educator>

**EPF.14 The student will demonstrate knowledge of the role of insurance in risk management by**

***b) distinguishing among the types, costs, and benefits of insurance coverage including automobile, life, property, health, and professional liability insurance (BUS6120.082)***

## **Day 2 - Property and professional liability**

### **Content Knowledge**

Property insurance is an important consideration. Without any homeowner's or renter's insurance, an individual would be liable for the entire cost of personal property if a loss occurred. Without adequate coverage, many people are surprised when they have a claim and find out they don't have full coverage. Therefore, it is important to have this coverage and periodically monitor the coverage as you experience changes in your life. Again, it is recommended to evaluate property insurance decisions based on a cost/benefit analysis. Comparison shopping is also recommended.

Professional liability insurance is a type of insurance purchased by attorneys and health care providers to protect against malpractice and other litigation.

#### **Vocabulary**

**Endorsements** – a written document attached to an insurance policy that modifies the policy by changing the coverage afforded under the policy. An endorsement can add coverage for acts or things that are not covered as a part of the original policy and can be added at the inception of the policy or later during the term of the policy.

**Floaters** – A type of insurance policy that covers property that is easily movable and provides additional coverage over what normal insurance policies do not. This can cover anything from jewelry to expensive stereo equipment.

**Professional Liability** – Insurance designed to protect professionals from claims due to errors or omissions, also known as malpractice insurance.

**Umbrella** – A liability policy designed to protect assets and future income of a policy-holder from claims against them.

#### **Virginia Board of Education Framework**

Some concepts to understand about property insurance:

- Its purpose is to protect a person from losses due to damage, theft, and liability.
- It includes basic coverage, broad form, special form, renter, comprehensive, and condominium owner,
- There are disadvantages of under-insuring and over-insuring.
- The insured must pay a deductible toward a loss before the insurance company contributes. Policies with lower deductibles have higher premiums, and vice versa.
- Insurance floaters cover items not covered by standard insurance policies, such as art collections or jewelry.
- Endorsements can be written to change a policy's coverage.

Professional liability insurance is often purchased by attorneys, health care providers, and educators to protect against malpractice and other litigation.

Umbrella liability insurance provides additional protection should other policies not be sufficient.

## Teaching Tips

- 1) Ask your students to take a personal inventory of their belongings. Included on this should be a replacement value of the items. You may want to have students compile this list with prices prior to coming to class.
- 2) Ask students how they would replace these items, if they were lost in a disaster. Do they currently have enough saved money to replace the items? If not, ask how they could guarantee the replacement if such an event occurred. Direct the students' discussion into homeowner's insurance and renter's insurance.
- 3) Have students access the following link for a Homeowner's Insurance Consumer's Guide. <http://www.scc.virginia.gov/boi/pubs/hoguide.pdf> Following the evaluation of this document, instruct students to complete the Homeowners Insurance Quotation Worksheet at the end of the document.
- 4) The following is a link to the Homeowner's Insurance Sample Premium Table (2011-2012) which can be a good planning tool when budgeting for property insurance. [http://www.scc.virginia.gov/boi/pubs/ho\\_sampprem.pdf](http://www.scc.virginia.gov/boi/pubs/ho_sampprem.pdf)
- 5) Also, consider inviting an insurance agent into your classroom. Have them discuss how premiums are affected by endorsements, floaters, and deductibles. Have them also address professional liability insurance.

## Lessons and Resources

Virtual Economics: Insurance Lessons, Lesson 4: Why Renter's Insurance?

### *Online*

Several publications on homeowners' and renters' insurance from the state Bureau of Insurance can be found at: <http://www.scc.virginia.gov/boi/pubs.aspx>

**EPF.14 The student will demonstrate knowledge of the role of insurance in risk management by**

***b) distinguishing among the types, costs, and benefits of insurance coverage including automobile, life, property, health, and professional liability insurance***  
(BUS6120.082)

## Day 3 - Life and health

### Content Knowledge

Not all health insurance plans cover everything. Knowing what is and isn't covered can help consumers make informed decisions.

#### Vocabulary

**Co-pays** – The portion of a medical service charge paid by the insured. This is paid first and the balance of the charge is submitted to the insurer for payment.

**Dental** – A specific type of medical insurance designed to cover care of the teeth and gums.

**Disability** – A type of insurance meant to provide long-term coverage and care if the insured is unable to work due to illness or injury.

**Major Medical** – Insurance that covers most serious medical expenses up to a maximum limit, usually after a deductible has been met.

**Term Life** – delete An insurance policy with a set duration limit on the coverage period. Once the policy is expired, it is up to the policy owner to decide whether to renew the term life insurance policy or to let the coverage end. This type of insurance policy contrasts with permanent life insurance, in which duration extends until the policy owner reaches 100 years of age (i.e. death). **Vision** – A specific type of medical insurance designed to cover basic optometric needs like eye exams, glasses and contacts.

**Whole Life** – A life insurance contract with level premiums that has both an insurance and an investment component. The insurance component pays a stated amount upon death of the insured. The investment component accumulates a cash value that the policyholder can withdraw or borrow against.

#### Virginia Board of Education Framework

Types of life insurance include

- Temporary insurance (term, decreasing term, level term, and credit life)
- Permanent insurance (straight life, limited pay, universal, and variable).

Some concepts to understand about health insurance:

- Basic health insurance covers doctor visit, routine service, and hospital and surgical expenses.
- Major medical insurance insures a person from large and catastrophic expenses resulting from illness or injury.
- Dental and vision care insurance are generally sold separately from basic insurance coverage.

- Disability insurance offers workers protection in case of job-related injury.
- There are both advantages and disadvantages of managed and unmanaged health insurance plans.
- Co-pays (i.e., payment by the insured for medical services) are requirement of most health insurance plans.

## Teaching Tips

- 1) Survey the students to determine how risky they are. How many like to rock climb? How many enjoy riding ATVs? How many have ever talked on the phone while driving? How many have not washed their hands before eating in the school cafeteria?
- 2) Ask the students about their last visit to the doctor. Did you pay for the visit? Have you ever had a broken bone? What type of medical attention was required? How costly do you think the medical visits were? Do you have enough saved money to cover such unforeseen events? Can we always predict when we will need medical attention and budget for this expense? Direct the students' discussion into the unanticipated medical expenses that tend to occur in life. Explain that health insurance can lessen the cost of medical needs.
- 3) Explain that the majority of individuals obtain health insurance through their employer. However, it is worth discussing health insurance for entrepreneurs. Businesses typically comparison shop health insurance companies for the best plans for their organization's needs. Within the organization there may be several plans available for employees to choose.
- 4) You may wish to secure health insurance information from the school division's HR department to use as an example, or ask local businesses that offer health insurance benefits to provide information.
- 5) Use a PACED decision-making grid to compare different plans or different components of plans (compare vision plans, compare dental plans).

## Lessons and Resources

Virtual Economics: Insurance Lessons, Lesson 2: The Basics of Life Insurance

### *Online*

Several publications on life and health insurance from the State Bureau of Insurance can be found at: <http://www.scc.virginia.gov/boi/pubs.aspx>

Khan Academy, Practical Money Skills. Term or Whole Life Insurance.

[https://www.practicalmoneyskills.com/resources/videos/term\\_and\\_whole\\_life\\_insurance\\_policies](https://www.practicalmoneyskills.com/resources/videos/term_and_whole_life_insurance_policies)

Econedlink Lesson, Break a Leg

<https://www.econedlink.org/resources/break-a-leg/>

**EPF.14 The student will demonstrate knowledge of the roles of insurance in risk management by**  
*c) explaining the role of insurance in financial planning*

## Day 1 - Protection or investment

### Content Knowledge

Insurance can play an important role in financial planning. Some life insurance can be used as part of an investment plan.

An annuity is a financial product that receives and grows funds from an individual. Later, it pays out a stream of payments to the individual. Annuities are primarily used for retirement.

An Individual Retirement Account (IRA) is an investing tool that earns and allocates funds for retirement savings. There are several types of IRAs: Traditional IRAs, Roth IRAs, SIMPLE IRAs and SEP IRAs.

A Health Savings Account is an account that may be offered with high-deductible health plans for the purpose of saving for medical expenses that high-deductible health plans do not cover. Contributions are made into the account by the individual and/or the employer and are limited to a maximum amount each year. The contributions are invested over time and can be used to pay for qualified medical expenses, which may include dental, vision and over-the-counter drugs.

It is important to consider several factors including your financial goals and provisions for your family. Comparison Shopping is recommended as the life insurance industry is in a competitive market. Much of the competition focuses on price. Conducting a cost/benefit analysis is helpful in finding the best value for your money.

### Vocabulary

**Cash Value** – the cash amount offered to the policyholder by the life insurance company. Cancellation of the contract – may not apply to some kinds of life insurance contracts.

### Virginia Board of Education Framework

Insurance can play the following roles in financial planning:

- Protection against risk of financial loss
- Assistance for individuals and families preparing financially for risks such as disability, unemployment, long-term care and death
- Provision for retirement income
- Accumulation of savings (for family expenses)
- Provision of cash value that can be borrowed.

It is important to make periodic reviews of insurance coverage.

### Teaching Tips

- 1) Have students access the following link to calculate their estimated life expectancy. <http://www.360financialliteracy.org/Topics/Insurance/Life-Insurance/Life-Expectancy>  
Have students refer to their financial goals. With both sets of information, students should be encouraged to make a list of insurance needs. Have students contemplate their retirement goals as well.
- 2) Have students examine different types of insurance from their above list. Life insurance should be included. Also have students examine annuities and IRAs. Research could be facilitated using the on-line resources below and/or the previous day's notes. Students could present their findings by means of a PowerPoint Presentation, newspaper article, Prezi Presentation, or short report.

## **Lessons and Resources**

Financial Fitness for Life: 9-12, Lesson 21: There Is No Free Lunch in Investing

Teaching Financial Crises Lesson 7: The Instruments and Institutions of Modern Financial Markets

Mathematics and Economics: Connections for Life Lesson 11: Cash or Annuity?

### *Online*

360 degrees of Financial Literacy (American Institute of CPAs)

<http://www.360financialliteracy.org/Topics/Insurance>

Building Wealth Guide from the Federal Reserve Dallas (includes planning for, shopping for, and budgeting for insurance. <http://www.dallasfed.org/ca/wealth/index.cfm>

Several publications from the state Bureau of Insurance can be found at:

<http://www.scc.virginia.gov/boi/pubs.aspx>

**EPF.17 The student will demonstrate knowledge of personal financial planning**  
**by**  
*c) examining components and purposes of a personal net worth statement*

## Day 1 - Calculating net worth

### Content Knowledge

A net worth statement shows one's financial position.<sup>1</sup> A personal inventory is needed both to establish the parameters for insurance coverage, and in case of claims. The inventory is one component of a net worth statement, which is used in making and adjusting the financial plan, and in obtaining credit.

#### Vocabulary

**Asset** – Something of monetary value owned by an individual or an organization.

**Liability** – Legal responsibility to pay a debt or for damages or losses one has caused.

**Net Worth** – The current value of a person's assets minus liabilities.

**Personal Inventory** – A listing of all the items in your home, often used in insurance claims.

#### Virginia Board of Education Framework

An individual's net worth statement provides the total value of a person's financial holdings.

Net worth is calculated by deducting liabilities (e.g., debts) from assets (e.g., property).

Examples of assets include checking and savings account balances, car value, and personal property value.

Examples of liabilities include balances on car loans, bank loans, mortgage loans, and credit cards.

A net worth statement is useful as an analytical tool for individuals and provides valuable insight to creditors, investors, lenders, and financial advisors.

A personal inventory is a list of all of one's personal property. This is useful in cases of fire, theft, and property damage. This inventory can be supplemented with photographs. It is important to keep the record in a safe place away from the primary residence.

### Teaching Tips

- 1) Ask students to define wealth. Write responses on the board. Ask students to define assets and liabilities. Again record responses on the board. Then show the relationship among the three terms by writing the following equation on the board. Assets = Liabilities + Net Worth. Then, take a moment to rearrange the equation to the following. Net Worth = Assets – Liabilities.

- 2) Assign students to take a personal inventory. It does not have to include financial assets, but they should begin by trying to think of all of their personal belongings in their room. Have them research what the belongings would be valued at and/or what it would cost to replace them. Have them categorize their belongings: furniture, clothing, sports equipment, electronics, books and music, etc. Don't ask them to share values, but ask them what categories are the largest. Are they surprised by what they own and its value? Are they surprised by which categories are the largest?
- 3) Have students prepare a net worth statement from a (fictional) personal inventory and information about financial assets and liabilities. You may choose to have students use an electronic net worth calculator.  
[http://www.360financialliteracy.org/Topics/Budgeting-Spending/Budgeting-and-Saving/Net-Worth/\(language\)/eng-US](http://www.360financialliteracy.org/Topics/Budgeting-Spending/Budgeting-and-Saving/Net-Worth/(language)/eng-US)
- 4) Conduct the online Lesson 1 – Budget to Save: What Does It Mean to Be Wealthy.

## **Lessons and Resources**

Financial Fitness for Life Grades 9-12 Lesson 8: Managing Your Money

### *Online*

Lesson 1 – Budget to Save: What Does It Mean to Be Wealthy

[http://www.dallasfed.org/educate/pubs/wealth\\_classroom/01\\_lesson.pdf](http://www.dallasfed.org/educate/pubs/wealth_classroom/01_lesson.pdf)

Calculating Your Net Worth [http://www.360financialliteracy.org/Topics/Budgeting-Spending/Budgeting-and-Saving/Net-Worth/\(language\)/eng-US](http://www.360financialliteracy.org/Topics/Budgeting-Spending/Budgeting-and-Saving/Net-Worth/(language)/eng-US)

Federal Reserve Bank of Dallas, Building Wealth Guide. Includes planning for, shopping for, and budgeting for insurance. <https://www.dallasfed.org/-/media/microsites/cd/wealth/index.html>

**EPF.17** The student will demonstrate knowledge of personal financial planning by  
*e) investigating the effects of government actions and economic conditions on personal financial planning*  
*f) explaining how economics influences a personal financial plan*

## Day 1 – Tax policies and financial planning

### Content Knowledge

Teenagers are often surprised to discover the amount of taxes deducted from their earnings. The reality is that there are many factors that influence the amount we have to spend and save. These factors include a variety of taxes, inflation, and interest rates. Much of the tax code is written to help shape our decision-making about how we spend or save our money. There are tax advantages to certain expenditure that, if known, may be a factor in our deciding to undertake certain expenditures (e.g. deductions for mortgage payments, charitable contributions.) Students need to understand that taxes can affect their finances which ultimately should affect their financial planning.

#### Vocabulary

**Deductions** – Amounts that are allowed to be subtracted from income before calculating tax. Common deductions include contributions to charity and mortgage interest.

**Taxes** – Compulsory payments to governments by households and businesses.

#### Virginia Board of Education Framework

Government actions, such as changes in taxes, affect personal financial planning.

Government tax policies, including what expenses are tax-deductible, influence financial planning. These tax policies may shift over time.

### Teaching Tips

- 1) Take this opportunity to review marginal cost and marginal benefit. List the following items where all students can see them: charitable contributions, interest on debt, and education. Ask students to recall the law of demand. What happens when the price of something is reduced? (*We consume more*). Ask: “What would be the result if the cost of each of the items listed is reduced?” (*People will tend to make more charitable contributions, take on more debt, and pursue more education.*)

Explore the tax deductions for charitable contributions, for home mortgage interest, and for education expenses. Remind students that a deduction reduces the amount of income that is taxed; therefore, the cost is reduced by the rate of the tax. If one is paying taxes at a rate of 10%, what is the resulting tax benefit of a \$1,000 charitable contribution? (\$100). What is the result of borrowing \$100,000 at 8% to buy a home? ( $\$100,000 \times .08 \times .10$  or \$800) What is the result of spending \$15,000 on tuition and books to attend

college? (\$1,500). How does this act as an incentive to contribute, learn or borrow to become a homeowner? What is the impact if the taxpayer pays 15%? 20%?

## Lessons and Resources

Financial Fitness for Life 9-12 Theme 2, Lesson 7: Uncle Sam Takes a Bite

Advanced Placement Economics Macroeconomics Unit 2, Lesson 3: Price Indexes and Inflation

## Day 2 - Economic conditions and financial planning

### Content Knowledge

Economic conditions change expectations. Expectations change how we choose.

Changing economic conditions affect individuals.

Changes in national levels of economic activity have a profound effect on students' future welfare, their job opportunities, the level of their prospective earnings, and the prices they will pay for things they buy. It is important, therefore, for students to understand possible causes of changes in these levels and how such changes can produce economic problems (such as unemployment and inflation) or opportunities (such as increased employment). Understanding these forces equips students to predict the economic consequences of proposed government policies and to make informed choices among alternative public policy proposals.<sup>2</sup>

Students who graduate at a time when unemployment is high will likely find it more difficult to find a job. In an effort to fight unemployment by stimulating the economy, the Fed may use monetary policy to keep interest rates low. Low interest rates help students borrowing money for college or cars, young families buying homes and entrepreneurs building businesses. At the same time, low interest rates hurt retirees who may be counting on income from interest on their savings.

Students who graduate when the economy is growing fast and inflation is the challenge will face different challenges. In a booming economy, there will be "help wanted" signs everywhere. Students will find it easier to get jobs. However, the Fed may start taking actions to fight inflation. Inflation is an increase in the overall price level that reduces the value of money, making prices of goods rise each year. (In 1979-1980 the rate of inflation was over 13%.) Inflation is a problem for savers because their savings lose value each year. It is a problem for people on fixed incomes (e.g. retirees) because their income is staying the same while the things they are buying are going up in price. It is a problem for businesses because of the uncertainty it causes. (What will I have to pay for my resources next year? Will I be able to increase my prices to cover those costs?) Because of the problems inflation causes, the Fed may use monetary policy to cause interest rates to rise to slow the economy.

Most people would like to have more money. Students, however, often fail to understand that the real value of money is determined by the goods and services money can buy. Doubling the amount of money in an economy overnight would not, by itself, make people better off, because there would still be the same amount of goods and services produced and consumed, only at higher prices. Understanding what determines the real buying power of money and earnings will help students make better decisions in their personal and professional lives. <sup>2</sup>

### **Vocabulary**

**Deflation** – A sustained decrease in the average price level of all the goods and services produced in the economy.

**Inflation** – A rise in the general or average price level of all the goods and services produced in an economy. Can be caused by pressure from the demand side of the market (demand-pull inflation) or pressure from the supply side of the market (cost-push inflation).

### **Virginia Department of Education Framework**

EPF.17e Monetary and fiscal policy actions can affect personal financial planning.

Economic conditions such as inflation and deflation affect financial planning.

Planning should anticipate the possibility of inflation or deflation in the future by including safeguards against both.

EPF.17f Changing economic conditions can influence a personal financial plan in the following ways:

- Inflation can negatively impact savings by eroding the purchasing power of savings over time.
- Unemployment can affect financial plans by making it more difficult for individuals to budget, save, and meet financial obligations.
- Deflation can reduce the value of assets one might own.
- Slow economic growth can lead to a rise in unemployment rates.

Fiscal policy actions can affect an individual's current and future income. For example, actions of the Federal Reserve System affect interest rates and the availability of credit; thus it is important to be aware of what the Fed is doing and to understand what it means to one's financial assets.

## **Teaching Tips**

1) This lesson should help students answer these questions:

--How can economic conditions such as inflation, deflation or unemployment affect my finances? What can I do to prepare?

--What economic conditions might cause the Fed to change interest rates and in what direction? How might that affect my finances?

- 2) If students have previously studied economic conditions such as unemployment and inflation and monetary and fiscal policies for addressing those issues, take some time to review. If this is new to them, it will be necessary to introduce this content. Content and strategies can be found in units 8 and 9. Be certain students understand that the economy goes through a business cycle of “booms (high growth often characterized by inflation) and busts (often characterized by unemployment and sometimes deflation)” Explain who is helped and who is hurt by inflation and the costs of unemployment. Introduce the CPI as a measure of inflation, GDP as a measure of economic growth and the unemployment rate as the percentage of people in the workforce who are seeking work and unable to find it.
- 3) Have students look up these current economic indicators--CPI, Unemployment Rate, GDP. How healthy does the economy look? (*Most textbooks indicate that a healthy economy would have CPI between 1-3, Unemployment 4-6%, GDP growing at least 3%. Are any of the indicators too high or too low?*) If inflation is too high, what do students think the Fed might do to interest rates? (*They might raise interest rates and make credit harder to get.*) Who might that help? Who might that hurt? If the unemployment rate is too high, what do students think the Fed might do to interest rates? (*They might lower interest rates and make credit easier to get.*) Who might that help? Who might that hurt?
- 4) Compare the groceries that could be purchased for \$10 in 1977 with those that can be purchased for \$10 today and explain how the value of money has changed. Students will be able to use this knowledge to explain how their lives would be more difficult in a world where money sharply lost its value.<sup>2</sup>
- 5) Ask students how people change their behavior in times of inflation. (*People buy in advance, assuming that prices will be higher in the future.*) Ask how savers would be affected by inflation. (*The purchasing power--what their money will buy--falls.*) What do some people do to protect themselves from inflation? (*They may buy tangible assets which tend to increase in value with inflation. Remind students that most cars, electronic equipment and clothing, though tangible, decrease in value with time. They may put their money in bonds where rates are adjusted for inflation. They may seek jobs where employees receive cost of living adjustments.*)
- 6) Show the business cycle. Point out that the economy tends to go through these periods of “boom” followed by periods of “bust” but that we don’t know how long each is going to last. So, knowing that at some point the economy will slow and they might find themselves unemployed. How should they prepare for this in their financial planning? (*Always have an emergency fund that is equal to at least six months of one’s income. Unemployment compensation will not cover your expenses. Engage in continuous learning to keep skills current. In the workplace seek to be indispensable so your employer won’t want to lay you off.*)
- 7) Focus High School Economics Lesson 18, Economic Ups and Downs activity 4 is a one page handout that asks students what economic conditions they would prefer upon graduation.

## Lessons and Resources

Focus High School Economics Lesson 18: Economic Ups and Downs

Learning, Earning and Investing Lesson 20: The Stock Market and the Future, Can You Forecast the Future?

Advanced Placement Economics Macroeconomics Unit 4, Lesson 4: The Federal Reserve System and Its Tools; Lesson 5: The Money Market and Monetary Policy; Lesson 6: Interest Rates and Monetary Policy in the Short Run and the Long Run; Unit 5, Lesson 2: Monetary and Fiscal Policy Interact

Econedlink Topic (Lesson plan collection): Understanding Fiscal Responsibility.  
<https://www.econedlink.org/resources/collection/understanding-fiscal-responsibility/>

*Online*

Econedlink Economic Data Lesson, Economic Policy Options.  
<https://www.econedlink.org/resources/economic-data-lesson-economic-policy-options/>

**EPF.17 The student will demonstrate knowledge of personal financial planning by**  
*f) explaining how economics influences a personal financial plan*

## Day 1 - Understanding decisions and choices

### Content Knowledge

Economic concepts are not just theory; they are real life tools to help people make choices that affect their personal well-being.

#### Virginia Board of Education Framework

Key economics principles that influence personal financial planning include the following:

- People must make choices due to scarcity
- Every choice incurs an opportunity cost
- All choices have consequences
- Secondary effects of choices are important
- Decisions are made based on marginal analysis

Applying these key principles to financial planning means the following:

- A budget details how one plans to use limited income to satisfy wants.
- There is a tradeoff between spending now and saving
- People make decisions about which financial products to consume based on several factors, including expected return and the associated risk of the product.
- Financial plans and financial products should take into account the goals of the individuals

### Teaching Tips

- 1) How to Really be a Millionaire, lesson 1 in Financial Fitness for Life 9-12. If this activity has not been done previously, it makes a nice summary.
- 2) List the economic concepts from the framework where all students can see them. Ask students to give examples of how each concept is used in financial planning
- 3) Divide students into groups and assign each one a scenario about an individual or family. The students' assignment is to produce a financial plan for this family. (All students may be working on the same family or different ones. Provide enough information for students to create a budget. Require the use of a PACED decision model to solve a family choice. Require them to show that they are prepared for unemployment. Tell them to explain how they will respond to inflation should the economy be faced with that. Be sure they understand the nature of risk and take that into account. Require students to make class presentations of their plans. Optional, bring in a "pretend" family of guests (principal,

coach etc.) or a financial planner. Lessons 12 and 23 in Learning Earning and Investing may be useful resources.

## **Lessons and Resources**

Learning Earning and Investing Lesson 12: Building Wealth Over the Long Term

Learning Earning and Investing Lesson 23: Investing Involves Decision Making

Financial Fitness for Life 9-12 Lesson 1: How to Really be a Millionaire

Financial Fitness for Life 9-12 Lesson 21: There is No Free Lunch in Investing

Financial Fitness for Life 9-12 Lesson 22: Financial Investing

## **EVALUATION DAY**