Lesson 1

Budget to Save: What Does It Mean to Be Wealthy?

Lesson Description

In an introductory brainstorming activity, students are challenged to define wealth and recognize the personal nature of the definitions. A basic balance sheet is introduced to concretely measure financial wealth, and students create balance sheets for fictitious characters. Finally, students compare assets that grow in value with assets that depreciate over time and complete an activity based on the assets and liabilities of a hypothetical teenager.

National Standards in K–12 Personal Finance Education (www.jumpstart.org)

Planning and Money Management
Standard 1: Develop a plan for spending and saving.
Standard 2: Develop a system for keeping and using financial records.
Standard 6: Develop a personal financial plan.

Instructional Objectives

Students will:

- Define wealth using the concept of net worth.
- Measure wealth using a balance sheet.
- Distinguish between wealth-creating assets and other types of assets.

Time Required

One 50-minute class period

Materials Required

- Class set of *Building Wealth* books
- Copies of classroom visuals
  - *Visual 1: The Typical Millionaire*
  - *Visual 2: Net Worth*
  - *Visual 3: The Value of Assets*
- Copy of the following classroom activity, cut into sections
  - *Activity 1: Balance Sheets of the Rich and Famous*
- Copies of the following handouts for each student
  - *Handout 1: Sandra's Balance Sheet*
  - *Handout 2: What Does It Mean to Be Wealthy?*

Procedure

Building Wealth – A Beginner's Guide to Securing Your Financial Future, pages 1–3, and the **Wealth Creation** section of the Building Wealth CD-ROM contain information and visuals related to this lesson.

1. *Display Visual 1: The Typical Millionaire*. Ask students to decide if each statement is true or false and write their answer on a piece of paper. After students have answered all the questions, use the information below to discuss each statement and the misconceptions that many people have about wealth.[1]
   - Most millionaires inherited their wealth.
     False—*About 80 percent of millionaires are first-generation affluent.*
   - Most millionaires earn more than $500,000 per year.
     False—*Less than 15 percent of millionaires have income over $500,000 per year.*
   - College graduates earn about twice what high school graduates earn over a 40-year work life.
     False—*In fact, according to 2007 Census Bureau statistics, the average college graduate earned 78 percent more than the average high school graduate. People with professional degrees earned 255 percent more than high school graduates.*
   - People who are self-employed rarely become millionaires.
     False—*More than half of the millionaires are self-employed.*
   - All millionaires wear expensive clothes.
     False—*Fifty percent of millionaires have never paid more than $400 for a suit; 90 percent of millionaires have never paid more than $1,000 for a suit.*
   - Millionaires usually drive new cars.
     False—*Less than 25 percent of millionaires drive a current-year car and more than half drive a car that is more than two years old.*
   - Many millionaires drop out of college to start work.
     False—*Four of five millionaires are college graduates. Eighteen percent have master's degrees, 8 percent law degrees, and 6 percent Ph.D's.*
   - It is impossible to save enough to be a millionaire.
     False—*For example, if a 22-year-old saves just $50 per week ($2,600 per year) during his or her entire working life and earns a 9 percent rate of return on the investments, the saver would have more than $1 million by age 63.*

2. Write the phrase "Wealth is…" on the board. Have students work in groups of two or three to brainstorm ways to finish the sentence.

3. Ask student groups to share their responses with the class. Collect responses on the board. Affirm the variety of responses and emphasize that individuals define wealth in many different ways. (See *Building Wealth* book, p. 1.) Tell students that these lessons will examine a systematic approach to measuring and building wealth.

4. Ask students to read pages 1– 3 in the *Building Wealth* book.

[1]Procedure #1 is based on Lesson 1 in *Financial Fitness for Life: Bringing Home the Gold*, published by the National Council on Economic Education. The information for the quiz is drawn from *The Millionaire Next Door*, by Thomas J. Stanley and William D. Danko, Atlanta: Longstreet Press, 1996.

5. Display *Visual 2: Net Worth*. Use the following questions to introduce the concepts of assets and liabilities.
   - What are assets?
     Anything an individual or business owns that has commercial or exchange value
   - What are some examples of assets?
     House, car, computer, furniture, savings accounts, stocks
   - What are liabilities?
     Money an individual or organization owes; same as debt
   - What are some examples of liabilities?
     Loans, balances on credit cards, mortgage, student loans

6. Tell students that a person's net worth is the difference between the person's assets (what they own) and liabilities (what they owe). Net worth is an important way to measure wealth. Analyze the concept of net worth using the following questions:
   - What happens to a person's net worth as he or she acquires more assets?
     Net worth increases.
   - What happens to a person's net worth as he or she acquires more liabilities?
     Net worth decreases.
   - What would happen to net worth if a loan is used to purchase an asset, like a house?
     Both assets and liabilities increase. The market value of the home is an asset, but the mortgage is a liability. Net worth increases if the market value increases and/or as the loan is paid off.
   - Does a high income automatically make a person wealthy (increase their net worth)?
     Not automatically. If the income is used to purchase assets, net worth will increase, but if the income is consumed, the balance sheet does not change.

7. Divide students into eight small groups and give each group one of the scenarios from *Activity 1: Balance Sheets of the Rich and Famous*. Ask each group to create a fictional balance sheet that shows the net worth of the person described. Students should create additional items for the balance sheet beyond those described in the profile. Each balance sheet should include at least four assets and four liabilities. After they are finished, ask students to share some of their answers. Draw a balance sheet on the board and collect student responses as examples of assets and liabilities. Reinforce the following critical points:
   - How do assets and liabilities affect the balance sheet?
     Assets add to net worth and wealth. Liabilities reduce net worth and wealth.
   - Is income an asset?
     Income is not an asset. Income allows a person to purchase assets.

8. *Display Visual 3: The Value of Assets*. Explain the difference between wealth-creating assets and assets that can depreciate in value. Ask students the following questions:
   - What are some examples of wealth-creating assets?
     Examples include stocks, bonds, real estate and savings accounts.
     Note to teacher: To clarify, you may wish to ask the students why the definition includes "generally *increase in value." Wealth-creating assets over time more than likely will appreciate. However, timing is important. A good example is found in bubbles and bursts of a particular industry.*

- How does ownership of a wealth-creating asset affect a person's balance sheet?
  The total value of the asset side of the balance sheet increases as wealth-creating assets grow in value. If additional liabilities are not incurred, wealth increases.
- What are some items that depreciate?
  Examples include cars, computers, gaming systems and televisions.
- How does depreciation affect wealth (or net worth)?
  As an asset loses value, total assets and wealth decrease.
- Why is a house considered a wealth-creating asset, while a car is not?
  Over time, a house that is maintained will usually retain its value or increase in value. While some collectable cars might increase in value, most cars lose resale value rapidly.

9. Distribute a copy of *Handout 1: Sandra's Balance Sheet* to each student and ask them to complete the activity. Review the suggested answers after student work is collected.

Closure

10. Review the major concepts of this lesson using these questions:
    - What are assets and liabilities?
      Assets can include anything an individual or business owns that has commercial or exchange value. Liabilities are made up of the money that an individual or organization owes. Liabilities are the same as debt.
    - What is net worth?
      It is the value of a person's assets less the amount of their liabilities. It is "what you own" less "what you owe."
    - How are wealth-creating assets different from other assets? What are some examples?
      Wealth-creating assets appreciate in value over time while other assets depreciate. A car is not a wealth-creating asset, but a savings bond is.
      Note to teacher: Remind students that many factors contribute to the rising and falling of an asset's value, such as overall market conditions and conditions of the asset itself.
    - How can a person use a personal balance sheet as he or she seeks to build wealth?
      A balance sheet is the tool that one can use to measure wealth. As net worth on the balance sheet increases, wealth increases.

Assessment

11. Have students work independently to complete *Handout 2: What Does It Mean to Be Wealthy?*

Dig Deeper

To reinforce the idea of depreciating assets, have students research the cost of new cars and the resale price of cars that are one, two and five years old. Pricing information is available online at websites such as **www.kbb.com** (Kelley Blue Book®) or at **www.edmunds.com**. Also, students could compare the cost of new and used video games at a retail store that sells used games, such as Gamestop®, or online at a website such as **amazon.com**.

Visual 1: The Typical Millionaire

1. Most millionaires inherited their wealth.

2. Most millionaires earn more than $500,000 per year.

3. College graduates earn about twice what high school graduates earn over a 40-year work life.

4. People who are self-employed rarely become millionaires.

5. All millionaires wear expensive clothes.

6. Millionaires usually drive new cars.

7. Many millionaires drop out of college to start work.

8. It is impossible to save enough to be a millionaire.

Visual 2: Net Worth

Assets – Liabilities = Net Worth

Assets

Anything an individual or business owns that has commercial or exchange value

Liabilities

Money an individual or organization owes; same as *debt*

Net Worth

The difference between the total assets and total liabilities of an individual

Visual 3: The Value of Assets

Assets

Wealth-creating assets are possessions that **generally** increase in value over time or provide a return.

Depreciating assets are possessions that decrease in value over time.

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

Activity 1: Balance Sheets of the Rich and Famous

John is the president and CEO of the software company he founded three years ago. He owns 60 percent of the stock in the company. He loves helicopters and built a pad next to his house so he could land his new helicopter on the property. He has a mortgage on the house and a loan for the helicopter. Create a balance sheet that shows John's assets and liabilities.

Gwen is an up-and-coming movie star. She just completed her first major role and received a multi-million-dollar paycheck. She invested a significant portion of her income from the movie in a stock portfolio. She is renting her house in California right now but plans to buy in the future. She still has some student loans from her days as a drama major in college. Create a balance sheet that shows Gwen's assets and liabilities.

Sam was a highly paid professional athlete until he was injured at the end of last season. He had taken a loan to purchase a large house because of his high salary as long as he played. In addition, he used a credit card to furnish the house with expensive art and collectibles. He bought a sports car, but he owes more on the loan than the car is worth. Create a balance sheet that shows Sam's assets and liabilities.

Steve is a local musician who has become popular around the state. A few years ago, he took a loan from a bank to purchase the amps, speakers and other audio equipment for his band. He has one year of payments left. He is still making payments on the truck that he bought to haul the equipment. He has been renting a house but is saving money for a down payment. Create a balance sheet that shows Steve's assets and liabilities.

Judy has authored a series of very successful books and has recently moved to New York to be closer to her publisher. She used her book royalties to buy a condo but took out a home improvement loan to completely renovate the space. She is collecting fine art for her new home and has purchased several pieces. After her last book was delivered to the editor, she decided to treat herself to a luxury trip to Europe that she charged on her credit card. Create a balance sheet that shows Judy's assets and liabilities.

Activity 1: Balance Sheets of the Rich and Famous

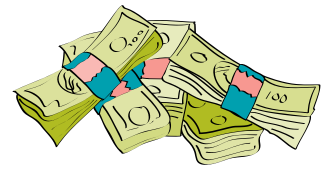
Page 2

Jason is a freelance sports photographer. His pictures are regularly featured in newspapers and magazines. He has purchased camera equipment over the years and has an extensive collection. While all his cameras are paid for, he recently financed a new graphics computer and printer that he can use for work. He purchased his house six years ago with a 30-year mortgage and just bought a new hybrid car with a five-year loan so that he can drive to more games. He has some credit card debt from his travels to games around the country. Create a balance sheet that shows Jason's assets and liabilities.

Christine is the host of a popular television talk show that has just been syndicated across the country. She used her credit card to travel around the country to promote the show to television stations in the major markets, and she also charged a new wardrobe for the trip. She bought her house 10 years ago with a 15-year mortgage. Her car is paid for, but she recently took out a business loan to develop a new line of products that relate to her show. She is the sole owner of this new business. Create a balance sheet that shows Christine's assets and liabilities.

Sarah just accomplished her life goal of climbing the highest mountain on each of the seven continents. She has reached the summit of Mount Everest twice. She has a keen eye for art and bought a 50 percent stake in a gallery that features works that she collected from her travels. Now she is embarking on a new career as a motivational speaker and has a full schedule for the next year. She has to pay off a loan from her last trip to Asia, but she has sold her house and has invested the money in a money market mutual fund until she is done with her travels. She took a 10-year loan to buy a small plane to fly to her speaking engagements, and she used her credit card to buy professional clothes for her new job. Create a balance sheet that shows Sarah's assets and liabilities.

Name:____ Date:____________



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

Handout 1: Sandra's Balance Sheet

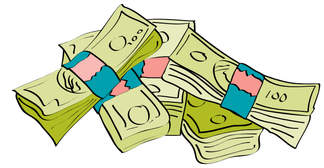
Sandra is a high school senior. By paying off her car and starting a savings account, Sandra believes that she is well on the way to wealth creation. Use the balance sheet below to discover Sandra's net worth. Put the items below in the appropriate section of the chart and use the formula **Assets – Liabilities = Net Worth** to compute her wealth.

Description	Amount
Owed to her mother for extra cell phone charges	*$250*
Present value of a savings bond that her uncle gave her	*$150*
Balance on a car loan	*$1,500*
Savings account from summer job	*$750*
DVD collection	*$200*
1999 car	*$3,500*
Balance due on prom dress	*$200*

Wealth-building assets	Amount
Other assets	**Amount**
Total assets	

Liabilities	Amount
Total liabilities	

Total assets	
Total liabilities	
Assets – Liabilities = Net Worth	



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

Handout 1: Sandra's Balance Sheet

Suggested Answers

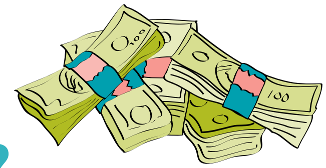
Wealth-building assets	Amount
Present value of savings bond that her uncle gave her	$150
Savings account from summer job	$750
Other assets	**Amount**
DVD collection	$200
1999 car	$3,500
Total assets	$4,600

Liabilities	Amount
Owed to her mother for extra cell phone charges	$250
Balance on a car loan	$1,500
Balance on prom dress	$200
Total liabilities	$1,950

Total assets	$4,600
Total liabilities	$1,950
Assets – Liabilities = Net Worth	$2,650

Name:____ Date:______________

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



Handout 2: What Does It Mean to Be Wealthy?

Match the following terms to the correct definition.

________1. Assets	a. The difference between the total assests and total liabilities of an individual
________2. Balance sheet	b. Assets that add to net wealth
________3. Depreciation	c. The loss of value of an asset over time
________4. Liabilities	d. Anything an individual or business owns that has commercial or exchange value
________5. Net worth	e. A financial statement showing a snapshot of the assets, liabilities and net worth of an individual
________6. Wealth-creating assets	f. Money an individual or an organization owes

Answer the following

7. Name two assets that are likely to depreciate in value over time.

8. What happens to wealth if debt is used to purchase consumable items? Refer to the parts of a balance sheet in your answer.

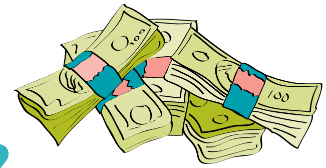
9. What conditions would allow a house to be considered a wealth-creating asset?

10. Why might a U.S. Treasury security be considered a wealth-creating asset?

What generally happens to net worth if you do the following action?

Circle I for increase and D for decrease.

11.	I or D	Invest in a 401(k) plan (retirement)
12.	I or D	Buy a car and make a small down payment
13.	I or D	Buy concert tickets with your credit card
14.	I or D	Spend money on your fall wardrobe
15.	I or D	Buy a Treasury security



Handout 2: What Does It Mean to Be Wealthy?

Suggested Answers

d 1. Assets	a. The difference between the total assests and total liabilities of an individual
e 2. Balance sheet	b. Assets that add to net wealth
c 3. Depreciation	c. The loss of value of an asset over time
f 4. Liabilities	d. Anything an individual or business owns that has commercial or exchange value
a 5. Net worth	e. A financial statement showing a snapshot of the assets, liabilities and net worth of an individual
b 6. Wealth-creating assets	f. Money an individual or an organization owes

7. Answers will vary but might include cars, computers, video games, clothes, etc.
8. When an item is consumed, it does not increase the total value of assets owned. When debt is used to purchase consumable items, liabilities increase. If total assets remain the same while total liabilities increase, net worth (or wealth) will decrease.
9. A house is a wealth-creating asset when it appreciates in value over time. Also, if a house maintains its value as the mortgage is paid off, net worth will increase.
10. A U.S. Treasury security is backed by the U.S. government and is generally considered to be one of the most secure assets that one can own. Interest on these securities provides a return, thus classifying them as wealth-creating.

11.	I	Invest in a 401(k) plan (retirement)
12.	D	Buy a car and make a small down payment
13.	D	Buy concert tickets with your credit card
14.	D	Spend money on your fall wardrobe
15.	I	Buy a Treasury security