

KATRINA'S CLASSROOM:

FINANCIAL LESSONS FROM A HURRICANE

LESSON 4: BACK TO SCHOOL

Students learn the importance of budgeting and delayed gratification in order to pursue an education and plan for a meaningful career.

Jump\$tart National Standards, Knowledge Statements, and Benchmarks for This Lesson

FINANCIAL RESPONSIBILITY AND DECISION MAKING

Knowledge Statement: A key to financial well-being is to spend less than you earn	Grade 8
Knowledge Statement: Financially responsible individuals accept the fact that they are accountable for their financial futures	Grade 12
Standard 4: Make financial decisions by systematically considering alternatives and consequences	Grades 8, 12

INCOME AND CAREERS

Knowledge Statement: Generally, people earn higher incomes with higher levels of education	Grade 8
Knowledge Statement: People's income reflects choices they have made about jobs and careers, education, and skill development	Grade 12
Standard 1: Explore career options	Grades 8, 12
Standard 2: Identify sources of personal income	Grade 8

PLANNING AND MONEY MANAGEMENT

Knowledge Statement: A budget identifies expected income and expenses, including saving, and serves as a guide to help people live within their income	Grade 8
Standard 1: Develop a plan for spending and saving	Grades 8, 12
Standard 3: Describe how to use different payment methods	Grades 8, 12
Standard 4: Apply consumer skills to purchase decisions	Grade 8
Standard 6: Develop a personal financial plan	Grade 12

SAVING AND INVESTING

Knowledge Statement: Saving means setting income aside for emergencies and immediate needs. Investing means putting money to work earning more money for the future. Funds for investing often come from current income not spent	Grade 8
Standard 1: Discuss how saving contributes to financial well-being	Grades 8, 12
Standard 2: Explain how investing builds wealth and helps meet financial goals.	Grade 8

LEARNING OBJECTIVES

At the end of the lesson, students will be able to

- Identify the purpose of a budget.
- Identify the dangers of living paycheck to paycheck.
- List strategies for living within one's means.
- Recognize that higher education is key to greater income over a lifetime.

TOOLS AND CONCEPTS

In the video, students will learn about

- Budgeting and savings.
- Education is the foundation for greater future income.

PREPARATION

Make transparencies of Visual 4-1—What Is a Budget? and Visual 4-2—How Long to Earn \$1 Million?

Photocopy Activity 4-1—Discussion Questions for *Back To School*, Activity 4-2—Creating a Budget, Activity 4-3—How Long to Earn \$1 Million? and Activity 4-4—Evaluation for *Back to School*

KEY MESSAGES

- Budgeting and savings.
- Invest in an education for future income.

PROCEDURE

1. Introduce the video.

Explain to the class that they are going to watch the story of Jamie, a young woman whose family left New Orleans during Hurricane Katrina and lived in Texas with relatives. Ask them to pay attention to what Jamie brought with her as she fled and how she is managing her money today.

2. Play *Back to School*.

Relate the story to any personal experiences in the class.

3. Distribute Activity 4-1—Discussion Questions for *Back To School*. Discuss the video.

How did Jamie and her family manage financially when she was in Houston?

- When Katrina struck, Jamie had just bought clothes for school. Where did she get the money for the clothes? (She had saved the money from her summer job.)
- What else did she do with the money she saved? (She had money to spend when she was in Houston.)
- How did Jamie and her family manage financially while they were living in Houston? (her parents used debit card to get money and pay for things)
- What did Jamie's friends recommend in order to be financially prepared? (having an emergency fund, don't live paycheck to paycheck)
- What did they think you should do in order to save money? (examine one's lifestyle, save as much as you can, live comfortably but not too comfortably)
- What are ways to reduce spending? (packing your lunch instead of buying it, finding cheaper entertainment like free concerts, reducing the number of take-out coffee drinks or other beverages, avoid impulse buying of clothing or other items)
- What kinds of spending habits cause people to live above their means? (impulsively buying things, having cell phone contracts that are expensive, managing cell phone minutes and text messaging carelessly)

How does Jamie manage financially today?

- How does Jamie know how much money she can spend, and how much she needs to save for tuition? (She has a budget.)
- How does Jamie pay for things? (She uses her debit card to make some purchases. She uses her debit card to get cash.)
- Jamie is on a tight budget. How will saving money now help her get what she wants? (She can finish school, and then she will be able to get a job that pays well.)

4. Define and discuss budgets.

What is a budget? (A budget is a plan that helps you manage your money by balancing your income with your expenses.)

A budget is a tool that helps you live within your means and reach your goals. If your budget is realistic and you stick to it, you will be able to pay for the things you need and save money for things that are really important. Sticking to a budget puts you in control of your money.

Project Visual 4-1—What Is a Budget?

Walk through each element of a budget. Explain different types of expenses. Explain that **fixed expenses** are those that do not change from month to month, and **variable expenses** do change. Explain that **periodic expenses** occur on an occasional basis.

Distribute Activity 4-2—Creating a Budget

In this activity, students create a simple budget. Divide the class into groups or have students complete the worksheet on their own.

Tell students to examine Visual 4-1 and make a budget of their own based on it. Tell them to list all sources of income that they now have, including allowance, gifts, and jobs for which they are paid (work-at-home as well as regular jobs). Then have students list their expenses in all categories. Finally, have them subtract their expense totals from their incomes to see how much is left for clothes, savings, and entertainment, as was done in the budget on the visual.

Review the completed budgets and discuss.

- How will you use the remaining money in the box at the bottom of the budget sheet? (clothes, entertainment, savings, etc.)
- What are some savings goals that you could add?
- What are some ways you could save money?

5. Explore the importance of higher education.

People who get an advanced education will make more money over their lifetimes than people who do not. Education is not only the key to greater financial well-being, but it is also essential if you want to have a meaningful, interesting career. Saving for your future education can be very important to you.

- In order to continue her studies and pursue her goal, Jamie will have to make serious lifestyle choices while she is in school. Will it be worth it? Discuss with students.
- What will the payoffs be for Jamie if she becomes a doctor? (She will help people, she will have an interesting job, she will make good money.)

Explain to students that they will now investigate how long it will take to become a millionaire.

Project Visual 4-2— How Long to Earn \$1 Million?

Distribute Activity 4-3— How Long to Earn \$1 Million?

Tell students that you would like them to guess how much someone in each category makes each year. (You may want to give hints, like “higher” or “lower.”) As amounts are determined, put the average earnings for someone in the category into the chart from the information below. Have students follow along with the answers on the visual, and have them fill in the information on their own activity pages. Next, ask students to divide \$1 million by this annual salary to see how long it will take them to earn that million. Challenge students to see who can get the correct answer first. Enter the correct answer in that row. After salaries and years are determined, ask students to shade the rows in the graph so that it corresponds to the correct answer. The completed chart appears on the next page.

Discuss information on average salaries for this activity:

- No High School Diploma—How long do you think it would take someone without a high school diploma to earn \$1 million? Let students guess. Then explain that the average amount someone in this category will earn over a 40-year period is about \$23,000 per year. How long will it take? (At that rate, it would take almost 44 years to earn \$1 million.)
- High School Diploma Only—How long do you think it would take someone with only a high school diploma to earn \$1 million? Let students guess. Then explain that the average amount someone in this category will earn over a 40-year period is about \$30,000 per year. How long will it take? (At that rate, it would take almost 33 years to earn \$1 million.)
- Associate’s Degree—How long do you think it would take someone with an associate’s degree from a two-year college to earn \$1 million? Then explain that the average amount someone in this category will earn over a 40-year period is about \$38,000 per year. How long will it take? (At that rate, it would take a little over 26 years to earn \$1 million.)
- Bachelor’s Degree—How long do you think it would take someone with a bachelor’s degree from a four-year college to earn \$1 million? Let students guess. Then explain that the average amount someone in this category will earn over a 40-year period is about \$52,000 per year. How long will it take? (At that rate, it would take about 19 years to earn \$1 million.)
- Master’s Degree—How long do you think it would take someone with a master’s degree to earn \$1 million? Let students guess. Then explain that the average amount someone in this category will earn over a 40-year period is about \$62,000 per year. (At that rate, it would take almost 16 years to earn \$1 million.)
- Professional Degree—How long do you think it would take someone with a professional degree (doctor, lawyer, dentist) to earn \$1 million? Explain that the average amount someone in this category will earn over a 40-year period is about \$109,000 per year. How long will it take? (At that rate, it would take about nine years to earn \$1 million.)

HOW LONG TO EARN \$1 MILLION?

GRAPH THE APPROXIMATE TIME EARNING \$1 MILLION WILL TAKE

Data for the **How to Become a Millionaire** activity were obtained from *The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings*, a special study published by the U.S. Department of Commerce and the U. S. Census Bureau. The complete study is available in PDF format at <http://www.census.gov/prod/2002pubs/p23%2D210.pdf>.

6. Optional activity: What do you want to be?

Ask students to consider a potential career that might interest them. Using the Internet or other research tools, have them find out the educational requirements and average annual salary of someone in that profession.

Discuss the following budgeting project for the future:

- a. Tell them to think about how much income they might be earning as a beginner in this new job after they have finished all of the necessary schooling.
- b. Brainstorm with students to create a list of expenses that they might have when they get out on their own for the first time with this new job.
- c. Tell them to work individually to create a new budget that they could use on this job in the future, based on their projected income in their new job. Have them use the list of expenses they created, and the budget on Activity 4-2 to guide them in creating their own individual budgets for the future. Alert students to remember to include saving in their budget plans.

7. Jamie's Needs, Wants, Goals.

Project Visual 1-1 from Lesson 1.

- Ask the class what needs, wants, and goals Jamie and her family have. Fill in the actual information about Jamie.
Jamie's Needs: Shelter, food, clothes.
Jamie's Wants: To be with friends, books, to hear music.
Jamie's Goals: To complete college, to become a doctor.
- Compare predictions with actual answers.
- Discuss similarities and differences among the three students.

CLOSURE

- Ask students if they realized the difference in potential earnings. Does this information surprise you?
- What could someone who is earning more each year do to make even more money? (save money, spend less, invest money and earn interest)

EVALUATION

Distribute Activity 4-4—Evaluation for *Back to School*. Ask students to complete the handout during class or for homework.

Review the answers with students.

Have students take their budget worksheets home and ask them to track their earnings and expenses. At the end of a week, ask them to review their budgets. Did their expenses differ from what they had anticipated? Was their income different? Have they found new ways to save money?

EXTENSION ACTIVITY:

Field Trip to Local Bank

Time: Half Day

Contact a local bank or financial institution to arrange a field trip. Have the bank manager walk students through the process of opening an account and how a bank works. They will be able to go through a mock account opening, but they will not be able to open an account. To open an account, a minor must have a parent or guardian present.

WHAT IS A BUDGET?

A budget is a tool that helps you balance your income and your expenses.

A budget can help you meet your goals. When you keep track of your money, you're in control!

Many people use a monthly budget.

A budget starts with income or an amount of money.

How much money do you get each month?

Income	\$2,000.00
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What expenses do you have each month?

Fixed Expenses

Rent	600.00
Cell Phone	40.00
Car loan payment	200.00

Variable expenses

Food (estimate)	500.00
Utility bills (estimate)	50.00
Gas	50.00

Periodic Expenses

Car insurance (\$300 a quarter)	(a month) 100.00
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Total expenses	\$1,540.00
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How much is left over for clothes, savings, entertainment, and any other expenses?

Subtract the expenses from the income.

\$ 2,000.00
- 1,540.00
<hr/>
\$460.00

VISUAL 4 - 2 – HOW LONG TO EARN \$1 MILLION?

	How much each year?	How long will earning \$1 million take?
No high school diploma		
High school diploma only		
Associates degree (two year college)		
Bachelor's degree (four year college)		
Master's degree		
Professional degree		

GRAPH THE APPROXIMATE TIME EARNING \$1 MILLION WILL TAKE

	Years									
	5	10	15	20	25	30	35	40	45	
No high school diploma										
High school diploma only										
Associates degree (two year college)										
Bachelor's degree (four year college)										
Master's degree										
Professional degree										

How did Jamie and her family manage financially when she was in Houston?

1. When Katrina struck, Jamie had just bought clothes for school. Where did she get the money for the clothes?
2. What else did she do with the money she saved?
3. How did Jamie and her family manage financially while they were living in Houston?
4. What did Jamie's friends recommend in order to be financially prepared?
5. What did they think you should do in order to save money?
6. What are ways to reduce spending?
7. What kind of spending habits cause people to live above their means

How does Jamie manage financially today?

8. How does Jamie know how much money she can spend, and how much she needs to save to tuition?
9. How does Jamie pay for things?
10. Jamie is on a tight budget. How will saving money help her to get what she wants?

Your Budget

List all of the income you receive each month.

Allowance \$ _____

Job (outside your home) \$ _____

Jobs (at home) \$ _____

Gifts \$ _____

Other income \$ _____

Total Income \$ _____

List your regular expenses, such as car payments, cell phones or anything else you are held responsible for paying each month.

Expense _____ \$ _____

Expense _____ \$ _____

Expense _____ \$ _____

Expense _____ \$ _____

Total Expenses \$ _____

Now subtract your expenses from your income to see how much you have left for clothes, savings, and entertainment.

Total Income \$ _____

Total Expenses - _____

\$

ACTIVITY 4 -3 – HOW LONG TO EARN \$ 1 MILLION?

	How much each year?	How long will earning \$1 million take?
No high school diploma		
High school diploma only		
Associates degree (two year college)		
Bachelor's degree (four year college)		
Master's degree		
Professional degree		

GRAPH THE APPROXIMATE TIME EARNING \$1 MILLION WILL TAKE

	Years									
	5	10	15	20	25	30	35	40	45	
No high school diploma										
High school diploma only										
Associates degree (two year college)										
Bachelor's degree (four year college)										
Master's degree										
Professional degree										

ACTIVITY 4 - 4 – EVALUATION FOR *BACK TO SCHOOL*

1. Review your budget from Activity 4-2. List below the fixed expenses, variable expenses, and periodic expenses in your budget. If you do not have at least one example for one of those categories, identify an example of that category.
 - a. Fixed expense(s):
 - b. Variable expense(s):
 - c. Periodic expense(s):
2. What is the purpose of a budget?
3. Identify the danger of living paycheck to paycheck.
4. Suppose you decided to save money for a large purchase but you currently have no money left in your budget after your expenses have been subtracted from your income. You could increase your income and/or decrease your expenses to increase the amount you could save during each budget cycle. Describe a specific plan to save the money for your large purchase.
5. Describe the relationship between education and income. Identify the education level you plan to attain and explain the reasons for your choice. What barriers exist for achieving that level of education?

1. Review your budget from Activity 4-2. List below the fixed expenses, variable expenses, and periodic expenses in your budget. If you do not have at least one example for one of those categories, identify an example of that category.

a. Fixed expense(s):

(Answers will vary but should be expenses that do not change from month to month.)

b. Variable expense(s):

(Answers will vary but should be expenses that may change from month to month.)

c. Periodic expense(s):

(Answers will vary but should be expenses that occur on an occasional basis.)

2. What is the purpose of a budget?

(Answers should be based on the following ideas: A budget is a plan that helps you manage your money by balancing your income with your expenses. It helps you live within your means and reach your goals. If a budget is realistic, and you stick to it, you will be able to pay for the things you need and save money for things that are important. Sticking to a budget puts you in control of your money.)

3. Identify the danger of living paycheck to paycheck.

(Answers will vary but should include that living paycheck to paycheck would create a problem during a disruption to one's financial life, e.g., natural disaster, job loss, sick relative, etc. The result could be not having funds or going into debt.)

4. Suppose you decided to save money for a large purchase but you currently have no money left in your budget after your expenses have been subtracted from your income. You could increase your income and/or decrease your expenses to increase the amount you could save during each budget cycle. Describe a specific plan to save the money for your large purchase.

(Answers will vary.)

5. Describe the relationship between education and income. Identify the education level you plan to attain and explain the reasons for your choice. What barriers exist for achieving that level of education?

(Answers will vary but should include that people who get an advanced education will make more money over their lifetimes than people who do not. Education is a key to greater financial well-being, and it is also important for a meaningful, interesting career.)

LESSON 4a: BACK TO SCHOOL EXTENSION ACTIVITY

Students learn and apply the concept of opportunity cost in the process of evaluating higher education financing options. Students account for all aspects of the total cost of borrowing for higher education, including opportunity cost, and consider whether student loans are a desirable option for financing their education beyond high school.

JumpStart National Standards, Knowledge Statements, and Benchmarks for This Lesson

FINANCIAL RESPONSIBILITY AND DECISION MAKING

Knowledge Statement: Financial choices that people make have benefits, costs, and future consequences.	Grade 8
Standard 3: Attitudes and values affect financial decisions.	Grade 12
Standard 4: Make financial decisions by systematically considering alternatives and consequences.	Grade 12

INCOME AND CAREERS

Knowledge Statement: People's income reflects choices they have made about jobs and careers, education, and skill development.	Grade 12
Knowledge Statement: The wages/salaries paid for a given job depend on a worker's skill and education, plus the importance of the work to society and the supply of and demand for qualified workers.	Grade 12
Standard 1: Explore career options.	Grade 12

LEARNING OBJECTIVES

At the end of the lesson, students will be able to

- Understand the concept of opportunity cost and apply it by estimating the total cost of borrowing to finance their postsecondary education.
- Evaluate the usefulness of student loans to finance postsecondary education.
- Develop a set of criteria for assessing various career options.

TOOLS AND CONCEPTS

Through this activity, students will learn about opportunity cost, principal, and interest.

PREPARATION

Coordinate Internet access for groups of three or four students to work during class time on the online research assignment.

Photocopy Activity 4a-1—Cost Comparison Worksheet and Activity 4a-3 — In-Class Essay: Comparing Costs and Benefits for each student in the class.

Make one photocopy of Activity 4a-2—Scenario Cards, and cut the paper to create the cards.

KEY MESSAGES

- Costs and benefits when making financial decisions
- Opportunity cost as part of the total cost of a choice

TIME REQUIRED

90 minutes or two 50-minute class periods

PROCEDURE

1. Discuss costs, principal, and interest.

Ask students how they would calculate the total cost of a student loan and solicit responses until they identify principal and interest as components of total cost. They do not actually have to use the terms “principal” and “interest,” but they should at least describe the concepts. Cost calculations can also include such factors as time spent researching financing options, transportation costs associated with meeting with potential lenders, or costs from phone service providers incurred as a result of calls to potential lenders.

Provide definitions of principal and interest, using those outlined below, to ensure all students understand these terms:

- Principal— The unpaid balance on a loan, not including interest; the amount of money invested.
- Interest—A fee for the use of money over time. It is an expense to the borrower and revenue to the lender.

2. Discuss costs, benefits, and opportunity costs.

Make sure students understand the difference between costs and benefits. Explain that costs and benefits can be understood as the two sides of an exchange.

- Costs—The value that must be given up to acquire a good or a service.
- Benefits—The value received as a result of acquiring a good or service.

Define opportunity cost as the value of the next-best alternative you are giving up in order to pursue something. Explain that the true total cost of a loan—or any expense—includes opportunity cost. Any resource, including interest, that someone dedicates to obtaining a loan could be used for some other purpose. Therefore, the value of this other purpose would be the opportunity cost of the loan.

Explain that opportunity costs can be expressed as a monetary (dollar) value. The dollar amount that would compensate for giving up your next-best option (for example, using resources put toward obtaining a college loan for a vacation instead) is the monetary value of the opportunity cost.

3. Cost comparison activity.

Hand out to each student a copy of the Cost Comparison Worksheet (Activity 4a-1). In the Expenses column, line items for principal and interest are already provided. Beneath these line items are additional blank spaces for filling in several different types of costs, including opportunity costs.

Give students ten minutes to think of and write down in the spaces provided some examples of costs associated with researching, obtaining, and repaying a student loan. Then give them an additional ten minutes to estimate the dollar value of each of these costs and calculate the total costs. Instruct the students not to fill in the spaces in the Benefits column yet; instructions for completing that part of the table are listed in the steps below.

Have students form groups of three or four, and have a representative from each group select a scenario (using the scenario cards from Activity 4a-2) from the options listed below.

Veterinarian	Interpreter/ Translator
Paralegal	Chiropractor
Dancer	Librarian
Athletic Trainer	Social and Human Service Assistant
Conservation Scientist/Forester	Graphic Designer
Landscape Architect	Registered Nurse
Fashion Designer	Urban and Regional Planner

Using a computer lab, ask each group to access the U.S. Bureau of Labor Statistics Web site section on Professional and Related Occupations (<http://www.bls.gov/oco/oco1002.htm>). Using the information provided on the site, particularly in the “Earnings” and “Nature of the Work” sections, ask each group to brainstorm a list of benefits that an individual could receive if they took out a \$20,000 student loan and entered the profession listed on their scenario card. For example, what benefit would taking out a \$20,000 loan provide if you wanted to become a veterinarian? Would it enable you to train for a more lucrative position? Relocate to a more desirable area? Ask each member of the group to list the group’s answers in the

Benefits column of their cost comparison worksheet. Then ask each student to estimate the dollar value of each benefit they listed. If students require more time to fill out the worksheet, provide time at the beginning of the next class period to conclude this part of the lesson.

4. Complete assessment.

Hand out a copy of Activity 4a-3 to each student. Read the prompt aloud.

If you were to pursue the profession listed on your scenario card, do you think it is a good idea to take out a 120-month student loan for \$20,000 at 6 percent interest? Why or why not? Use the data you have collected on your cost comparison worksheet to justify your response, comparing the costs of borrowing money against the benefits.

Ask students to respond to the prompt in the space provided below it, giving them up to 15 minutes to write down their answers. Once they have completed their responses, ask students to summarize and share them verbally with the class. Ask them to explain why any items they identified as opportunity costs fit the definition of an opportunity cost. Also, ask them to select an example of a cost and an example of a benefit from their list and explain how they arrived at the dollar values that they assigned to them. Ask students if they agree with the dollar valuations and, if not, how they might calculate them differently.

After concluding the debriefing, collect each student's response and their cost comparison worksheet.

CLOSURE

- How can understanding costs and benefits help you to decide whether to take out a student loan?
- Has this lesson made you think differently about whether it would be worthwhile to take out a student loan? Why or why not?

EVALUATION

Have students complete their cost comparison worksheets in class, and ensure that they have followed the instructions in filling them out. Using the data from their worksheets as a guide, have students write the in-class essay on the handout form that you have provided them. Collect both the cost comparison and essay sheets, and evaluate the content based on the completeness of their responses. Answers on the cost comparison worksheet should reflect that the student can correctly identify costs and benefits. The essays should include a clear thesis statement that is relevant to the assignment as well as supporting statements that make reference to the costs and benefits of obtaining a student loan.

ACTIVITY 4a - I – COST COMPARISON WORKSHEET

Amount	Amount	Amount	Amount
\$20,000	loan principal	_____	_____
\$6,644	interest payments	_____	_____
(for a 120-month, 6% fixed-rate loan)			
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	Total	_____	Total

Instructions: Print or photocopy the cards below and cut them along the dotted lines. Have a representative from each group randomly draw one card, which will serve as the occupation for all group members to use during Step 4 of this lesson.

Veterinarian	Interpreter/Translator
Paralegal	Chiropractor
Dancer	Librarian
Athletic Trainer	Social and Human Service Assistant
Conservation Scientist/Forester	Graphic Designer
Landscape Architect	Registered Nurse
Fashion Designer	Urban and Regional Planner

ACTIVITY 4a - 3 — IN-CLASS ESSAY: COMPARING COSTS AND BENEFITS

Give students approximately 20 minutes to outline and write a response to the following prompt. (Responses should be at least two to three complete paragraphs.)

If you were to pursue the profession listed on your scenario card, do you think it is a good idea to take out a 120-month college loan for \$20,000 at 6 percent interest? Why or why not? Use the data you have collected on your cost comparison worksheet to justify your response, comparing the costs of borrowing money against the benefits.