

# Chapter 4

## Lesson 2 Money Management

**Theme: Money Management**

### **Lesson Objective:**

Students will examine and evaluate relationships among a person's personal goals, wants, needs and his personal budget. Students will examine barriers to financial success.

Students will generate plans for reaching financial independence. (See matrix for Arizona Academic/Adult Standards).

### **Steps to Follow:**

**"You aren't wealthy until you have something money can't buy." --Garth Brooks**

Introduce lesson with the self-talk litany. Ask how the Big Ideas fit with this lesson.

1. Ask students to define "goal" (e.g. something I want to do, get to accomplish) and give an example of one of their goals. Ask how they think managing their money can help them to reach their goals. Point out that "managing" implies planning.
2. Ask: If we know planning and managing goals and money are likely to get us good results, what things stand in our way of doing it? Sounds like work? Why not just "roll the dice" and take your chances? Can planning improve your "luck"?
3. State this lesson examines these ideas.
4. Ask students to define "budget". Conclude that it's a plan for spending and saving money. If your budget is working for you and not against you, you earn more than you spend.
5. Complete *Sam's Wants* S1. Read the scenario. List the three steps – list expenses, add emergency expenses and match expenses and income.
6. Do Step 1 - Read Sam's expenses. Ask: Do they seem reasonable?  
Do Step 2 - What kinds of emergencies might happen?  
Do Step 3 - If Sam gets all his "wants" how much over budget will he be?
7. Point out Sam has a lot going for him, but he has to cut his budget.

8. Complete *Help Sam Lower His Expenses* S2. Read directions aloud. After student completes worksheet, discuss student's solutions.
9. Hand out, read aloud *Here's What Sam Decided* S3. Answer questions on sheet, discuss answers.
10. Complete *The Three Steps to Plan a Budget* S4.

## **Materials:**

*Sam's Wants* S1

*Help Sam Lower His Expenses* S2

*Here's What Sam Decided* S3

*The Three Steps to Plan A Budget* S4

## **Evaluation:**

Rubric.

## **Enrichment:**

*Credit Cards: Do the Math – 1* EN1

*Credit Cards: Do the Math – 2* EN2

*Credit Cards: Do the Math – 3* EN3

*Budget Explosion* EN4

## Sam's Wants

S1

Sam is 19 years old, has his GED and some experience with home fix-it projects. He's just gotten a new, full time (40 hours/week) job as an associate at Home Depot. Although he's only been on the job for 3 weeks, he likes it because he's learning computer, customer service and inventory skills. Upon completing his 3-month probationary period, he'll be eligible for health and dental insurance benefits. He wants to move out of his parents' house, share an apartment with a friend and buy a car. Sam has had problems with money before and his parents have rescued him. He decides to stand on his own this time. He comes up with a *3-step plan*:

Step 1: List monthly expenses. How much will my lifestyle cost?

Housing	\$ 300.00
Utilities (gas and electricity)	60.00
Clothing	100.00
Telephone	50.00
Health	
Medical Insurance	45.00
Dental	35.00
Prescriptions	25.00
Car	
Payment	100.00
Gas and Maintenance	75.00
Insurance	100.00
Food/household maintenance (paper products, detergent)	210.00
Eating out	100.00
Entertainment	100.00
Cable	25.00
Credit card payment	41.50
Personal Hygiene (hair cut, shampoo)	50.00
<b>TOTAL MONTHLY EXPENSES</b>	<b>\$ 1421.50</b>

Step 2: How much should I save for emergencies and unexpected expenses?  
(Most money managers suggest 20% of your total monthly expenses)

20% of my TOTAL MONTHLY EXPENSES:  $\$1421.50 \times .20 = \$284.30$

<b>REVISED TOTAL MONTHLY EXPENSES</b>	<b>=</b>	<b>\$1421.50 + 284.30</b>	<b>\$1705.80</b>
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Step 3: Match expenses and income. Yikes! I earn \$894 after deductions.

## Help Sam Lower His Expenses

**S2**

How could Sam lower his expenses so they match his earnings and get what he wants? Sam's goal is to move out, buy a car and be independent of his parents.

What goals could he set?

Goals for next 3 months:

Goals for next 6 months:

Write new expense so he can reach these goals.

<b>EXPENSES</b>	<b>OLD</b>	<b>NEW</b>
Housing	\$ 300.00	
Utilities (gas and electricity)	60.00	
Clothing	100.00	
Telephone	50.00	
Health		
Medical Insurance	45.00	
Dental	35.00	
Prescriptions	25.00	
Car		
Payment	100.00	
Gas and maintenance	75.00	
Insurance	100.00	
Food/household maintenance (Paper products, detergent)	210.00	
Eating out	100.00	
Entertainment	100.00	
Cable	25.00	
Credit card payment	41.50	
Personal hygiene	50.00	
<b>Total Monthly Expenses</b>	<b>\$ 1421.50</b>	

Other advice:

## Here's What Sam Decided

**S3**

Goals for the next 3 months: *Pay off \$350 credit card debt. Don't charge, pay cash. Move in with sister. Baby-sit Tuesday and Thursday nights for her two children while sister works. Stay healthy. Be a responsible employee. Ask about extra hours. Cut down on every expense. Take the bus or pay sister to drive me to work. When I get off probationary work period ask what I need to do to get a raise. Open a savings account and deposit all money left after expenses.*

Goals for next 6 months: *If living with sister is going OK, look for a reliable used car. If living with sister isn't OK, look for another living situation. Do what supervisor suggested to get a raise. May need additional job.*

EXPENSES	OLD	NEW
Housing	\$ 300.00	\$ 50.00
Utilities (gas and electricity)	60.00	10.00
Clothing	100.00	0.00
Telephone	50.00	20.00
Health		
Medical Insurance	45.00	45.00
Dental	35.00	35.00
Prescriptions	25.00	25.00
Car		0.00
Payment	100.00	
Gas and maintenance	75.00	
Insurance	100.00	
Food/household maintenance (Paper product, detergent)	210.00	140.00
Eating out	100.00	30.00
Entertainment	100.00	40.00
Cable	25.00	0.00
Credit card payment	41.50	350.00
Personal hygiene (hair cut, shampoo)	50.00	25.00
<b>TOTAL MONTHLY EXPENSES</b>	<b>\$ 1421.50</b>	<b>\$ 765.00</b>

Sam's monthly income after taxes is \$894.00. The first month he'll open a savings account and deposit \$129.00. Sam will have no more credit card payments; he'll deposit \$479.00 in his savings account for the next 2 months.

Sam has a plan. List 3 problems that could interfere with his plan. Give him advice how he could overcome each problem.

## **The Three Steps To Plan A Budget**

**S4**

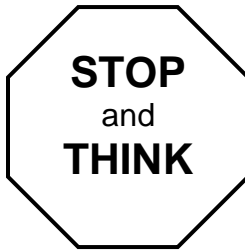
**Step 1**

**Step 2**

**Step 3**

**Other thoughts about \$\$ and reaching your goal:**





Does this decision show what I value?  
Does it help me reach a goal important to me?  
Can I live with the consequence?

List the good and bad of credit cards:

**GOOD:**

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**BAD:**

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Discuss your answers and compare them to the reasons listed on Credit Cards:  
Do the Math – 2 EN2.

## Credit Cards: Do the Math – 2

Good and Bad

EN2

### Good:

- Convenience
- Using a credit card builds your credit history
- In some case, you must have a credit card to:

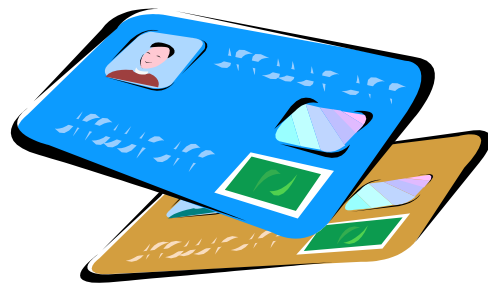
*“Hold” a reservation*

*Rent a car*

*Book airline reservations*

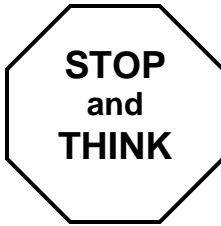
### Bad:

- Interest charges
- Late charges
- Penalty for exceeding credit limit
- Fee for cash advance
- Annual fee





On January 1<sup>st</sup>, you charge \$305.00 for stereo equipment. Your credit card charges 17% interest on the unpaid balance. \*



What do you think is your unpaid balance on the first bill? If you said \$305.00, you're wrong.

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Do the math:

$$\$305.00 \times .17 (17\%) = \$51.85\ldots$$

$$\text{Your new unpaid balance is } \$305.00 + \$51.85 = \$356.85$$

**Month #1, you owe \$356.85**

Let's say your minimum payment is \$35.00. To get the bill under \$305.00, you decide to pay \$56.85 (\$356.85 - \$56.85 = \$300.00).

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Do the math:

$$\$300.00 \times .17 (\text{don't forget that } 17\%) = \$51.00$$

$$\text{Your new unpaid balance isn't } \$300.00, \text{ but } \$351.00$$

**Month #2, you owe \$351.00**

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Some cards may be a better deal than this. But, before you buy, especially "with plastic", ask yourself two questions: Do I need it? Can I afford it? (If you wouldn't lie to a friend, don't lie to yourself.)

\* Note – If it's 17% APR, must translate to daily periodic rate, and then calculate interest.

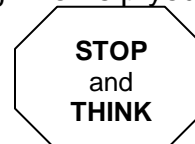
## Budget Explosion

EN4

What can explode a budget? This isn't an activity about saving \$\$ in your piggy bank, using coupons at the grocery store or cutting down on buying junk food when you are a little short on cash. Although these are three smart money management actions, if you don't do them, you'll probably break your budget.

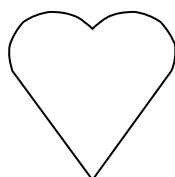
This isn't a lesson about the risky business of credit card use or impulse buying. If you don't purchase wisely, you could "bust" your budget.

This is a lesson about budget crashing, exploding and burning. To help you Here are some actual situations from a current budget class.



These are people currently on probation or parole struggling to survive financially.

1.



+ sex = baby

Cost of a healthy baby boy before it's born

\$ \_\_\_\_\_

Pretend your family gave you the big items:

crib and mattress	\$230.00	rocking chair	\$200.00
swing	50.00	port-a-crib	150.00
bureau	210.00	carrier	120.00
legal car seat	150.00	stroller	200.00
changing table	100.00	camera	200.00

Pretend your friends gave you some basics:

diaper bag	\$ 50.00	baby bath tub	\$ 25.00
photo album	25.00	2 packages diapers	25.00
bottles	50.00	1 package wipes	5.00
diaper genie	30.00	4 onesies	10.00
room monitor	70.00	4 pair booties	10.00
humidifier	50.00	2 blankets	20.00
crib mobile	40.00	2 crib sheets	15.00
crib bumper pad	20.00		

Cost of 6 doctor's visits, hospital regular birth, no complications, no insurance  
\$ \_\_\_\_\_

Cost of baby first week home \$ \_\_\_\_\_

Pretend you had to pay this yourself. You're 19 years old, working full time as a manager at Burger King, bringing home about \$800.00/month. Your new wife, who's now not sure she loves you, is 16 years old.

Total cost of 3 month old baby he loves \$\_\_\_\_\_

Total emotional cost ??????????????

Cost of safe sex and condom \$\_\_\_\_\_

Cost of abstinence \$\_\_\_\_\_

2. Death of a family member.

Seventeen year old living at home with father, 56, mother, 56, brother 23. Father and brother killed in DUI last month. Car totaled. Mother has never worked. Now they can't afford to keep their house. They have \$1,200.00 saved.

3. Person moves into house.

Anna, 18, lives at home with her mother and now her mother's boyfriend. She works 30 hours/week as a waitress, goes to a community college full time studying aircraft technology. She drives an old car, pays 40.00/month tuition and is saving to get her own apartment. Mother worked full time. Mother's boyfriend is disabled. Since he moved in, mother is working part time and takes care of him. He thinks Anna should pay \$50.00/week rent.

4. Person moves into house – 2

Earl is a twenty-four year old whose sister gets a divorce. She has nowhere to go with her children 4 and 2. She's 6 month's pregnant. They come to live with him in his 2-bedroom apartment. His sister is having a sick pregnancy because of the stress; she can't find a part time job or someone to watch the kids. They have only his car. She has no money or insurance. Groceries and the children's necessities alone are well beyond his \$200.00/week take home pay.

Each one of these people has come to the budget class to get help. They're trying to make decisions that keep with their values, including getting and staying out of trouble with the law. All wish they'd done things differently before they got into these situations. They never really thought about decisions and figured things would work out somehow.

