BUILDING YOUR MONEY PYRAMID: FINANCIAL PLANNING

CFE 3218V

OPEN CAPTIONED
MERIDIAN EDUCATION CORP.
1994
Grade Levels: 10-13+
14 minutes
1 Instructional Graphic Enclosed

DESCRIPTION

Most people will earn a large sum of money over a lifetime. How should they handle it? Explains the why's and how's of financial planning. The financial pyramid emphasizes savings (emergency funds), protection (various insurances), and investments (home ownership, stocks, bonds, commodities). Taking control of finances now leads toward financial goals and secure retirement. MONEY MANAGEMENT SERIES.

INSTRUCTIONAL GOALS

- To illustrate the need for and benefits of financial planning.
- To present a strategy for financial planning.
- To introduce three components of financial planning: savings, protection, and investments.

BEFORE SHOWING

1. Read the CAPTION SCRIPT to determine unfamiliar vocabulary and language concepts.
2. Hypothesize how an unexpected problem could impact personal savings and current and future income.

AFTER SHOWING

<u>Discussion Items and Questions</u>

1. Discuss reasons for financial planning.
   a. Justify managing personal earnings wisely.
   b. Compare the money pyramid, the food pyramid, and the ancient Egyptian pyramids.
   c. Justify owning a home as a way to build financial security.
   d. Determine how much a savings account investment of $10, $100, or $1000 at 6% interest will be worth after 10 years.
   e. Define *personal financial health*.
2. Discuss strategies for financial planning.

a. Debate the use of payroll deduction savings plans.
b. Compare stocks, bonds, and commodities. Consider risk, return, and initial cost.
c. List tips for selecting stocks for purchase and starting a savings plan.
d. Evaluate purchasing real estate as an investment.
e. Summarize how to become financially healthy using the motto "Save, Protect, Invest."

3. Use the money pyramid to develop a personal financial plan for the following:
   a. An individual has won a million dollars in the lottery.
   b. A high school student plans to attend a four-year college after graduation.
   c. A high school student plans to work immediately after graduation.

Applications and Activities

1. Survey the school and local community.
   a. Can an individual ever have, make, or spend enough money?
   b. Who has an emergency fund containing at least three months' salary, car insurance, renter's insurance, homeowner's insurance, health insurance, and life insurance?
   c. Who invests in stocks, bonds, commodities, or real estate?
2. Determine how much money individuals may earn in their lifetimes.
   a. Choose three diverse career options.
   b. Identify a typical current yearly income for each career.
   c. Not counting a single raise or promotion, determine how much money each career will earn for an individual by the age of 70.
3. Evaluate financial planning options.
   a. Research savings plans at a bank, savings and loan, and credit union. Consider:

(1) Savings accounts
(2) Certificates of deposit
(3) Savings bonds
(4) Money market deposit accounts
(5) Money market funds

b. Investigate car insurance. Consider costs, coverage options, and legal requirements.
c. Check on local prices to buy a home. Consider purchase price, down payment, and mortgage payments.
d. Research ways to reduce a tax bill. Acquire a copy of tax guidelines.
e. Investigate the reasons that commodities trading is very risky business.

4. Investigate retirement plans.
   a. How much money is needed to comfortably retire?
   b. How many years of financial planning are needed to adequately plan for retirement?
   c. How long does the average person spend in retirement?
   d. How do personal savings, government benefits, and job benefits work together to form a retirement package?
5. Use the money pyramid to develop a personal financial plan. (See INSTRUCTIONAL GRAPHICS.)

INSTRUCTIONAL GRAPHICS

One instructional graphic is included with this lesson guide. It may be enlarged and used to create transparencies or copies.

- MONEY PYRAMID

WEBSITES

Explore the Internet to discover sites related to this topic. Check the CFV website for related information (http://www.cfv.org).

CAPTION SCRIPT

Following are the captions as they appear on the video. Teachers are encouraged to read the script prior to viewing the video for pertinent vocabulary, to discover language patterns within the captions, or to determine content for introduction or review. Enlarged copies may be given to students as a language exercise.

[synthesizer playing]

[upbeat piano, bass,
and drums playing]

(male narrator)
Big bucks...

are probably
right near

the top
of your list.

We think
we never have,

make, or can spend
enough money.

If only we'd win
the lottery--

a million dollars
would be nice.

Looking at
the money

you might make
over a lifetime

tells a different story.

If at age 21 you earn
$1,500 a month--

that's $18,000 a year--

by the time
you turn 70,

you will have earned
$882,000--

nearly a million dollars,

not counting a single raise
or promotion.

With that much money,

it makes sense to manage
your earnings wisely.

Take time to plan how
you'll handle it.

It'll go
a lot farther.

When living

from tank of gas
to tank of gas,

having leftover money
may seem impossible.

However, if you get
in the habit of saving

you could be
on solid ground

sooner than you think.

The food pyramid

shows the
five basic food groups

and outlines
good nutritional health.

The money pyramid is
similar,

spelling out
what you might do

to build financial health.

Financial health encompasses

taking control
of your money now,

working to reach
financial goals

like buying a car,
a house,

or keeping an eye
toward retirement.

[grunting]

[thwak]

[thwak]

Retirement seems
a long way off.

Build your personal savings

to add to government
or company benefits,

and you'll probably have
a secure life

when you're
in your grandparents' age.

It can happen
if you start building

a money pyramid now.

Like the
ancient Egyptian pyramids,

you build it
one block at a time.

Build a
solid financial foundation.

A good first goal is
to have an emergency fund

containing at least
three months' salary.

With money put aside,

having your car
conk out

or being out of work,

won't seem like the
end of the world.

A savings account
at a bank, savings and loan,

or credit union
at work is

a start
to a savings program.

Many companies offer

a payroll deduction
savings plan

so you can set
money aside

before you're tempted
to spend it.

Savings programs have
two purposes.

One, you accumulate money;

two, you earn money

on the money you're saving,
called interest.

Suppose you deposit $1.00
in a savings account

and leave it
for 10 years.

Say the
bank pays you

6% of that sum
for the privilege

of using your money.

After ten years,

that dollar will have grown
to $1.76--

almost double
your original investment.

All you did was
wait.

What if you'd deposited $10,
or $100, or even $1,000?

That's the power
of saving!

Other ways of building
an emergency fund

may net more interest.

If you think a CD is
a compact disc--you're right!

It's also a certificate
of deposit--

a piece
of paper

issued to you
by a bank.

It's basically an IOU.

The bank agrees

to pay back
your money

with interest,
at a specified time.

Maybe at birth
you received

U.S. Savings Bonds
as gifts.

The government pays

people interest
on these bonds

for lending them
the money.

Learn about CDs,
government savings bonds

and other savings plans

such as money market
deposit accounts

and money market funds
at a savings institution

or from a financial expert.

So many options!

It can seem complicated
at first.

The main thing is
to start saving--

even small amounts.

Save change
in a jar.

If you can't keep
your hands out,

pour in
some water.

You won't be as tempted
to fish for quarters.

The key is
to pay yourself first.

After paying
your other expenses,

there probably won't be
anything left.

In addition to
an emergency fund,

the first level
of the money pyramid has

a section
for insurance.

Insurance policies protect you

from potential problems.

You pay the
insurance company

regular small amounts,

and they promise
to protect you financially

from loss or harm

such as a car accident
or illness.

First, you'll probably have
car insurance.

It's against the law

to drive
without automobile insurance.

If you rent an apartment,
mobile home, or house,

you'll want
renter's insurance

to cover your belongings

in case of theft,
fire, or water damage.

If you own property,

homeowner's insurance will cover

damage to the structure
and the contents.

You may have
group life insurance

and health coverage
through work

to help pay
your medical bills.

If you're not insured,

unexpected problems could
eat away at

your savings, income,
and future income.

Make an appointment
with an insurance agent

to discuss at least
basic coverage.

Do you have
renter's insurance?

(man)
I don't think so.

That's a coverage

you should look into.

If you live
in a complex,

and there's an accident,

you and your possessions
would be covered.

(narrator)
Family or friends
might recommend

an insurance agent
you can trust.

A solid insurance program is

part of building
financial security

as is owning
your own home.

A home is usually
the biggest investment

a person
or family makes.

Once you have the
down payment for a house

and begin making
monthly mortgage payments,

you start
to build equity.

As you pay off
the home loan,

you gradually own more
of the house,

and the
financial institution

you borrowed
the money from, owns less.

The goal is
to pay

all the money
you owe

until the house
belongs to you

free and clear.

When you've secured the
financial base

on your money pyramid,

you may want to make
some investments.

Investments are money
you spend

in the hope
you'll eventually make

even more money,
or profit.

Two of the most popular

investments people make are
in stocks and bonds.

Although the words are

often said together,

stocks and bonds are

different types
of investments.

If you bought stock
in a fast-food restaurant,

you'd own a small part
of the business.

If you held a bond
for the restaurant,

you'd be lending
money to the company,

perhaps to expand
or make improvements.

Stocks represent ownership.

Bonds represent loans.

Stocks make money
called, dividends,

if the value
of the company

you invested in
goes up.

You lose money
if the value drops.

That's where
the risk is.

You can never know
for certain

what is going
to happen.

Stock prices go
up and down.

A bond pays
set interest

in a specified number
of years

until the balance
you loaned is

totally repaid
to you.

If you had money
to buy stocks now,

you might base
your selection

on what you know.

What clothes,
what music,

what food,
what games are hot?

Often companies
making those items

become more profitable.

Investing does take
more than instinct.

If you think you have
a lot of homework now...

good investment decisions
with stocks and bonds

take lots
of research.

Some people invest
in real estate

to make a profit.

They might buy
a small house

or apartment building,

and rent the property
to someone else

or fix it up
themselves

and sell it
for a profit.

People have made money
with real estate.

However, you are
better off

if you can do much
of the maintenance

and repair work
yourself.

The third level
of your money pyramid,

tax management, builds
on the first two.

You'll have to pay taxes
on your wages

and on profits
from your investments.

There are
many ways

to reduce
your total tax bill.

In home ownership,
you can deduct

part of the house payment
that goes for interest--

which is most of it--

from your taxable income.

That can be a big savings
at year's end.

If you can manage
a down payment,

buying your own home

can be a
good investment.

Your workplace may offer
tax advantage programs

allowing you
to pay for benefits,

such as child care
and health care,

with money
that won't be taxed.

Knowing tax guidelines is

part of financial planning.

You may have heard
that porkbellies are up,

winter wheat is trading
at a certain price,

or the value
of gold has dropped.

Porkbellies, wheat,
and gold are commodities,

as are corn, coffee,
sugar, soybeans, rice,

and precious metals.

People invest
in them

just like stocks
and bonds.

Commodities trading is
very risky.

Most investors either make

or lose a lot
of money.

There's not much
safe middle ground.

Savings, investments,
and tax management--

that's the way
a money pyramid is built.

When you're busy

every day,

planning for the future
can seem overwhelming.

But keep in the back
of your mind...

It's not the motto
of the marines,

but it's a good way
to stay financially healthy.

Save money for emergencies
and the future.

Protect yourself
and belongings with insurance.

Make your savings grow
with sound investments.

You'll be building
a solid money pyramid

and a solid future.

Funding for purchase

and captioning
of this video

was provided by the
U.S. Department of Education:

PH: 1-800-572-5580 (V).

THE MONEY PYRAMID