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Making a Budget - It Is All Spending! (MCEE)

Comparing Types of Savings Accounts (NGPF)

Think You Can Beat the Stock Market? (NGPF)

Suggested Pacing Guide

01 DAY

Topic: The Importance of Setting SMART Goals

Standards:

PFM.8.E.2: Evaluate a variety of strategies for making personal financial goals to build short-term and long-term wealth
PF.5.MM.5: Examine the influences on financial planning decisions (e.g., needs vs. wants, priorities, values, stages of life, estate planning)
PF.7.SI.6: Interpret the role of goal setting as an integral part of financial planning and construct a well written goal

Essential Question: How can setting goals help me plan and save money?

Activity: Establishing SMART Goals

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02 DAY

Topic: Financial Institutions & Products

Standards:

PF.5.MM.1: Compare types of banking institutions including products and services available
PF.5.MM.2: Explore the process of opening and managing different types of accounts (e.g., checking, savings)

Essential Question: What types of financial products and services are available to me?

Activity: What Type of Bank Account Should I Open?

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03 DAY

Topic: Building Wealth through Saving & Investing

Standards:

PFM.8.E.2: Critique components of personal money management in order to build short-term and long-term wealth

Essential Question: How can small savings accumulate large amounts of wealth over time?

Activity: Market Analysis

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04 DAY

Topic: Financial Market Regulations

Standards:

PF.7.SI.8: Understand the regulation of savings and investments

Essential Questions: How are financial institutions regulated? How do those regulations affect me?

Activity: Ethical Analysis

SMART Goals in Personal Finance

Specific – Good goals are specific so we know exactly what we're striving for. A financial goal might include the precise amount of money you want to save this year. For example, "I want to save $1,000 over the next 12 months" is a specific goal.

Measurable – Good goals are measurable so that we know when we have accomplished them. It will be easy to see whether you have an extra $1,000 in your savings account 12 months from now.

Achievable – Good goals are achievable, which means they can actually be accomplished with focus and discipline. Is it possible for you to save $1,000 over the course of the next year? If not, what amount would be achievable?

Realistic – Good goals are also realistic. While it might be possible for us to save $1,000 in one year, it might not be realistic. We may not be able to carve out enough savings to put this money aside. Or, we may not have time to get a part-time job to earn this extra money. Saving $500 might be more realistic over the next year given our constraints.

Time-bounded – Good goals have a deadline to help us focus our efforts. For example, are we likely to make the daily sacrifices needed to achieve a goal of "I want to save $1,000 at some point in my life"? Human nature is such that we would likely postpone the actions needed to achieve the goal, perhaps indefinitely.

Six examples of SMART personal goals:

I will save $1,200 over the next 12 months to go on a graduation trip to New York City.

I will save my babysitting money for two years so I can accumulate $1,500 to buy a used car.

I will lose 20 pounds by December through replacing soda with water and eating salad daily.

I will save $400 from mowing neighbors' lawns over the next six months to buy a guitar.

I will accumulate $10,000 in my retirement account before my 25th birthday using an automated investment plan.

I will complete my bachelor's degree in the next four years by earning 15 credits per semester.

Here are a few things to remember when you start investing.

<u>Take advantage of employer matching</u>.
Many employers encourage employees to begin saving for retirement by offering to match some portion of their retirement contributions. For example, assume you went to work for a firm that matched 100% of your retirement contributions up to 4% of your salary and you made $40,000 a year. You would contribute $1,600, or .04 x $40,000. Your employer would match that amount and you would have $3,200 a year going into your retirement account. Assuming you worked for 45 years and earned an 11% return, you would have $3,157,243 at retirement!

If you took a job without that 4% matching contribution, you would have to contribute 8% of your take-home pay to end up with the same amount; otherwise, you would only end up with half of that amount, or $1,578,622. Sometimes you are better off taking a job with a lower salary that has an employee match or better health insurance. You need to carefully evaluate your total compensation package to determine which job offer is in your best interest.

Keep in mind that both of these examples assume that your salary stays constant at $40,000. In reality, you will probably see an increase in your salary, and therefore your retirement contributions, for every year you work.

<u>Depositing funds isn't enough</u>. Moving money into an investment account isn't the same as actually investing it. Your employer may have default investments that your money automatically goes into, or you may have to select and purchase these investments yourself. If you're putting money in an IRA, you will have to make your own investment selections and purchases. If you let cash sit in your retirement account, your balance will not grow.

Use dollar-cost averaging. Dollar cost averaging is an investment strategy where you invest the same dollar amount every month. For example, if you set up an account where you invest in a stock mutual fund and transfer $200 a month into the fund, you will see that each month, your investment will buy a different number of shares in the mutual fund. When the price is low, you will buy more shares. When the price is high, you will buy fewer shares.

<u>Use tax-sheltered accounts</u>. In addition to a possible employer match, investing in a retirement account through work—or on your own—means you will pay less in taxes. That's why retirement accounts are also called tax-sheltered accounts. The government established these options to encourage people to save for retirement. Social Security alone does not pay enough for someone to live comfortably in retirement.

Putting money in most tax-sheltered accounts lowers the amount of taxes you pay in the year of the contribution and allows the invested funds to grow tax free. Why is this such a big deal?

Consider this example. If you are single and make a little over $40,000 a year, you will be in the 22% tax bracket. For every $1.00 you put in a 401(k) or traditional IRA (two common types of tax-sheltered accounts), you will lower your current taxes by 22 cents. Therefore, it will only cost you $0.78 to put $1.00 in an investment account where it will grow tax free until you retire.

When you retire, as long as you are over age 59 ½, you will pay taxes on your distributions from that account at the tax rates in place at that time. And, since most of us will have a lower income in retirement, we should be in a lower tax bracket.

Exercise #1 | STUDENT VERSION

Establishing SMART Goals

(30–45 minutes)

Name ____ Date:_____________________ Class Period: ___________

Establishing good goals is essential to building wealth over time. However, it takes some practice to begin drafting good goals. Also, it's important to write your goals down and post them where you can see them and review them every day. Reminding yourself of your goals will help you achieve them.

Look at each of these goals and identify whether it is a good goal. If it is not a good goal, identify the problem. What's wrong with it? How could you improve it?

1. I want to lose a lot of weight this year.

2. I intend to begin saving money in the next two years.

3. I will accumulate $10,000 in my savings account by the end of five years.

4. Someday I will learn to play the piano.