Wee-Savers Financial Literacy Curriculum

101: INTRO TO FINANCIAL LITERACY

Introduction (2 minutes)

I. This presentation will cover four major topics of financial literacy: income, expenses, savings vs. emergency fund, and budgeting.

II. I will explain the difference between income and disposable income.

III. Following, I will provide examples of common expenses and the role that expenses play when it comes to income and disposable income.

IV. Then, I will discuss the difference between a savings and emergency fund and how to prepare for each with various income levels.

V. Lastly, I will discuss budgeting and how income, expenses, savings, and emergency funds play a key role in creating a budget.

a. Income (4 minutes)

I. Income is the money that is received from work or investments.

II. *Give this example:* You know how when your parents (if children) or you (if teens of working age or adults) go to work and at the end of each week or every two weeks, one receives a paycheck for the work that they have done? This is considered income because it is the amount of money that one received from work.

III. Now, disposable income is money left after all expenses have been paid. Disposable income can be spent on anything.

IV. *Give this example:* When one receives income, they take that amount and pay bills. After the bills are paid, whatever amount is left over is disposable income.

V. (Reference the example on the slide): The example on the slide states that “a bi-weekly paycheck of $1,200 is income and the remainder of $450 after expenses (bills) have been paid is the disposable income of the household”.

VI. So, income is used to pay bills/expenses and disposable income is used for leisure items (one can spend it on anything they want).

b. Expenses (6 minutes)

I. Expenses are like bills. We just discussed that a little in the income topic. So, in a household, expenses are light bills, gas bills, groceries, rent, car note, child related, car insurance, etc. Those are necessities.

II. As we just learned, income and expenses go hand and hand. The income is needed to pay the expenses, but the expenses should never be more than the income that one is bringing in. Why?

- For one, that leads to no disposable income or any money for emergency purposes. That also leads to debt.

- If one has more bills than they have money, then all the bills cannot get paid.

- So, it is encouraged that one tries to keep expenses below income. This will allow for an opportunity to save, which we will discuss later. Saving money is essential for children and adults.

III. Every household has variable and fixed expenses.

- Fixed expenses can include things like rent, cable, cell phone bills, savings, loans, and more.

- Variable expenses can include light bills, water bills, entertainment (movies), credit card payments, and food. These expenses may change from money to month, closely linked to activity volumes.

- Fixed expenses are those that never change each month and variable expenses are ones that can change month from month. Fixed costs do not change with activity volumes.

- Example: Rent can be $700 each month which means it will not change, but food bills can change depending if there might be a holiday or birthday that month.

IV. *Expenses example:* This example shows how the first step of budgeting looks. It helps when one lists all expenses because it can help one recognize where they might spend too much money or where they can spend more.

- Instructor can walk through the sheet and point out a few expenses that might be relatable to the audience.

c. Savings vs. Emergency Fund (5 minutes)

I. A savings is different from an emergency fund. A savings account earns interest, annually or monthly, depending on the terms of the institution. People create a savings to put aside money for a huge investment such as buying a house, car, or children's college fund.

II. An emergency fund is money that is put aside for emergencies such as job loss, car repairs, or emergency surgery. The emergency fund is not for vacations. That is a savings account. The fund should only be touched if there is a household emergency. Your favorite store having a huge sale is not an emergency.

III. It is important for families to have both. A savings account does not need to be a major amount each month. It can start off with just $20 a check and grow from there. For children, they can invest $1 of their allowance each week into their account and watch it grow.

IV. An emergency fund can be a small amount as well. It is based on the type of income coming into the household.

- Given that one invests $20 each month into their emergency fund, but does not have an emergency until 2 years after. That is $480 in the fund that can be used. It might not seem like a lot, but it is very helpful.

d. Budgeting (8 minutes)

I. Budgeting is a forecast of monthly expenses that help individuals see what they can and cannot afford.

II. A budget lists out all income and expenses of a household to see what is disposable after each pay period. A budget also allows for individuals to see where they need to cut cost or where they can cut cost.

III. The steps for a budget are:

1. List household income – this includes all money that is coming to the household that contribute to the monthly expenses.

2. List home expenses – this includes rent, electricity, gas, water/sewer/trash, phone, cable and internet, lawn services, home supplies, groceries, maintenance, and improvements. List any extras such as hair appointments, dry cleaning, personal supplies, and clothing.

3. List money that is being invested into savings accounts, emergency funds, and college funds.

4. List obligations such as student loans and credit card fees.

5. Always Balance – Subtract your expenses from your income.

IV. (Reference budget in presentation): Looking at the example, the budget breaks down all the income and expenses of the household.

- When budgeting, one is predicting what their monthly expenses will be. It is recommended that one writes down the actual amount for items each month to see if they are under or over budget.

- This helps with predicting for the next month.

e. Questions (5 minutes)