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Foundations in Personal Finance
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Financial Peace®
SCHOOL CURRICULUM

FOUNDATIONS in PERSONAL FINANCE®

Sponsored By:

FIFTH THIRD BANK

DAVE RAMSEY

LAMPO PRESS

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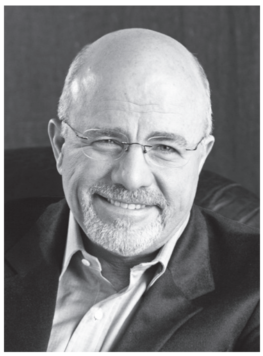

Dave Ramsey, a personal money management expert, is an extremely popular national radio personality, and author of the *New York Times* best-sellers *The Total Money Makeover, Financial Peace* and *More Than Enough*. Ramsey added television host to his title in 2007 when "The Dave Ramsey Show on the Fox Business Network" debuted nationally. Ramsey knows first-hand what financial peace means in his own life—living a true rags-to-riches-to-rags-to-riches story. By age twenty-six he had established a four-million-dollar real estate portfolio, only to lose it by age thirty. He has since rebuilt his financial life and now devotes himself full-time to helping ordinary people understand the forces behind their financial distress and how to set things right. He resides with his wife Sharon and their three children in Nashville, Tennessee.

As Dave Ramsey's kid, **Rachel Cruze** knows a thing or two about money. From an early age, Rachel's parents instilled in her a healthy sense of financial responsibility. She learned the value of earning, saving and giving—and how debt is the enemy of wealth. Armed with this valuable knowledge, Rachel desires to help others—especially teens and college students—understand the importance of money management. An experienced public speaker, Rachel often joins her father on stage in capacity-crowd arenas to teach basic financial literacy skills. Now in college, Rachel successfully manages her own finances while majoring in Communication Studies.

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A LETTER FROM DAVE

Dear Student,

Welcome to Foundations in Personal Finance! The information you are about to learn will change your financial future—if you apply what we teach.

I talk to people every day who tell me, "I wish I had learned this stuff in high school! I could have avoided so many problems!" I know how they feel. I built a multi-million-dollar business in my twenties, only to have it wiped out because I didn't know how to manage my money—and I even had a college finance degree!

You don't want to learn about money the hard way like I did. Thanks in part to our friends at Fifth Third Bank you will not have to. If you take what you learn from this class and apply it to your life, you'll never have to experience the pain and stress money problems can bring.

Enjoy the class! Use what you learn! Change your life!

Sincerely,

Dave Ramsey

A LETTER FROM OUR SPONSOR

Dear Student,

It is a privilege for Fifth Third Bank to sponsor Foundations in Personal Finance in your school. We are big fans of Dave Ramsey and what he teaches young people about money. We made this investment in you so that you'd gain the knowledge that will pay you healthy dividends in the future.

We care about your financial literacy—how much you know about how money works and how to use it properly—because, as a bank, we have a front-row seat to what can happen when you don't understand it. We want to be your partner on your journey to financial independence.

All of us at Fifth Third Bank wish you the very best as you move ahead toward graduation and into your adult life. Thanks for the opportunity to be a part of your education.

Good luck!

K Kabat

Kevin Kabat
PRESIDENT & CEO
FIFTH THIRD BANCORP

UNIT 1

SAVING and INVESTING

SAVINGS CH 1

What do other high school students know about saving?

We asked high school students to describe something they really wanted and thought they *had* to buy, only to realize later that they wasted their money.

"I worked and saved **$250** for a guitar that I **never learned how to play.**"
Junior, Michigan

"I bought some fish that I thought I really wanted. I never fed them, totally lost interest in them, and they all died. What a waste of money."
Junior, Alabama

"I bought a computer game that didn't work because I didn't read the required hardware notice on the box."
Senior, Missouri

"I really wanted this expensive skateboard that cost $130. I had to have it. Turned out it skated no better than the other ones that were a lot less expensive."
Sophomore, Alabama

"I got a pink Coach purse that I paid over $200 for and have maybe used twice."
Junior, Florida

LEARNING OUTCOMES

List the Baby Steps.

Explain the three basic reasons for saving money.

Identify the benefits of having an emergency fund.

Demonstrate how compound interest works and understand the impact of annual interest rate.

KEY TERMS

Baby Steps
Compound Interest
Emergency Fund
Interest Rate
Money Market
Sinking Fund

BEFORE YOU BEGIN

What do you know about saving?

Before watching the lesson, read each statement below and mark whether you agree or disagree in the "before" column. Then, after watching the lesson, do it again using the "after" column to see if you changed your mind on any question.

Before: Agree	Before: Disagree	Statement	After: Agree	After: Disagree
☐	☐	1. The amount of money you save depends on how much money you earn. Simply put, you will *save* more when you *earn* more.	☐	☐
☐	☐	2. A savings account at your bank is the best place to put your emergency fund.	☐	☐
☐	☐	3. The two biggest factors in compound interest and building wealth are time and the initial amount of the investment.	☐	☐
☐	☐	4. It is okay to use your emergency fund to pay cash for big purchases such as a TV or a cell phone.	☐	☐
☐	☐	5. You should pay yourself first before you pay bills.	☐	☐

What are your initial thoughts about saving?

What do you want to learn about saving?

CH 1 SAVINGS

The Seven Baby Steps

Step 1
$1,000 in an emergency fund (or $500 if you make less than $20,000 a year)

Step 2
Pay off all debt except the house utilizing the debt snowball

Step 3
Three to six months expenses in savings

Step 4
Invest 15% of your household income into Roth IRAs and pre-tax retirement plans

Step 5
College funding

Step 6
Pay off your home early

Step 7
Build wealth and give!

MORE INFO

The **Seven Baby Steps** are the steps you should take to reach financial peace.

If you are not in debt, these steps will serve as your compass or framework for financial success.

You will find the Seven Baby Steps explained in detail throughout this course. When you begin implementing them for yourself, be sure to follow them in order and complete each one before moving on to the next.

MONEY FACTS

70% of consumers live paycheck to paycheck.
The Wall Street Journal

The United States has a **-.6%** savings rate.
Department of Commerce

Only **41%** of Americans save regularly.
Federal Reserve System

Half of American households live on less than $46,326 a year.
U.S. Census Bureau

REAL LIFE

Do you think people who *make* more actually *save* more? Think again. Harris Interactive conducted a survey for CareerBuilder.com (November/December 2006) of 6,169 full time adult workers. The survey, according to a Reuters news release, found that 19% of workers who make over $100,000 live pay-check to paycheck.

Take the First Step

BABY STEP 1

Baby Step 1 is ________ in an emergency fund.

If you make under $20,000 a year, put __________ in an emergency fund.

_______________ must become a priority. Always pay _____________ first.

The United States has a _____________ savings rate.

Saving money is about ______________ and ______________.

Money is ___________________.

END OF VIDEO PART 1

You should save money for three basic reasons:

1. __________________________
2. __________________________
3. __________________________

Emergency Fund

________________ are going to happen. Count on it.

Baby Step 1, a beginner emergency fund, is ___________ in the bank (or $500 if your household income is below $20,000 per year).

Baby Step 3 is a fully funded emergency fund of 3-6 months of expenses.

A great place to keep your emergency fund is in a __________ __________ account from a mutual fund company.

WISE GUYS

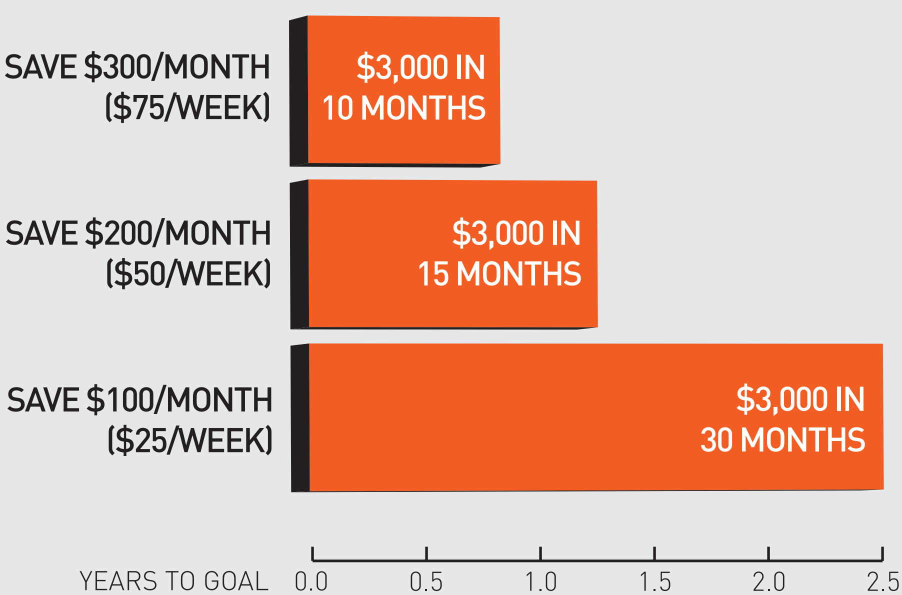
"If you do the things you need to do when you need to do them, then someday you can do the things you want to do when you want to do them."

Zig Ziglar

"I'm 14 and want to buy a car in a couple of years. How much money will it take to get a good one?"

DAVE'S ANSWER: You can buy a good used car for around $3,000. This may seem like a lot right now, but let me show you how easy it can be. Let's say you work part-time after school and on weekends. If you make $100 a week and save it all, you'll have enough for a car in only eight months. Pretty cool, huh?

Can't do $100 a week? Saving a little bit at a time adds up and you will eventually reach your goal. Take a look at the graph below for a few ways it can be done.



Q&A

"How should I prepare to manage my money when I go off to college and what should I do when I'm there?"

DAVE'S ANSWER: One thing you want to be sure to do in college is avoid credit cards. They're going to be tempting you on every corner. And of course, you need to learn how to operate, balance and reconcile a checkbook.

You also need to learn how to do a zero-based budget where you look at what you're going to spend every month. A friend of mine gives his college-age daughter $200 a month for expenses and she has to do a written plan showing exactly what she's going to do with that money before each month begins.

MORE INFO

For example...

Say you borrow $4,000 to purchase a dining room set.

Most furniture stores will sell their financing contracts to finance companies.

This means you will have borrowed at 24% with payments of $211 per month for 24 months. So, you will pay a total of $5,064, plus insurance, for that set.

But if you save the same $211 per month for only 18 months, you will be able to pay cash.

When you pay cash, you can almost always negotiate a discount, so you will be able to buy it even earlier.

Your emergency fund is not an ____________, it is insurance.

Do not ________ this fund for purchases.

The emergency fund is your _____________ savings priority. Do it quickly!

The second thing you save money for is ______________.

Purchases

Instead of _____________ to purchase, pay cash by using a __________ __________ approach.

END OF VIDEO PART 2

Wealth Building

The third thing you save money for is

_____________ _______________.

________________ is a key ingredient when it comes to wealth building.

Building wealth is a ______________, not a sprint.

Pre-_________________ ________________(PACs) withdrawals are a good way to build in discipline.

_____________ _____________ is a mathematical explosion. You must start ________.

MORE INFO

You should have an emergency fund because unexpected things are going to happen. Smart people have known this for centuries and used to say, "In the house of the wise are stores of choice food and oil, but a foolish man devours all he has." (Proverbs 21:20) In other words, having some money saved back can turn a crisis into an inconvenience.

Compound Interest Is Powerful

Take a one-time investment of $1,000 and earn 10% on it. Your interest at the end of the year is $100. Add that to your original $1,000 and you have $1,100. At the end of the next year, your $1,100 is compounded at 10% interest, so your return on investment is $110. Add that to the $1,100 and you now have $1,210. Your interest on $1,210 is $121. So as time passes, the amount you earn from interest grows. That is why it is so important that you start now. You have more time for your interest to snowball and pick up more and more snow!

How to Calculate Compound Interest

Use this simple formula to figure out the future value of a deposit once compound interest has worked its magic.

$$FV = PV(1+r/m)^{mt}$$

When calculating this formula, remember to use the mathematical order of operations.

FV is the future value
PV is the present value
r is the annual rate of interest as a decimal (5% is expressed as the decimal .05)
m is the number of times per year the interest is compounded (monthly, annually, etc.)
t is the number of years you leave it invested

REAL LIFE

Compound interest is interest paid on interest previously earned; credited daily, monthly, quarterly, semi-annually, or annually on both principal and previously credited interest.

STUPID TAX

"I played this internet game site where you could buy extra 'pixel' clothing and hairstyles. I ended up spending over $100 on pixels for the game."

Freshman, Alabama

"I blew all my money trying to get a stuffed animal out of one of those machines with the claws."

Junior, Florida

The Story of Ben and Arthur

Both save $2,000 per year at 12%. Ben starts at age 19 and stops at age 26, while Arthur starts at age 27 and stops at age 65.

END OF VIDEO PART 3

AGE	BEN INVESTS:		ARTHUR INVESTS:	
19	2,000	2,240	0	0
20	2,000	4,749	0	0
21	2,000	7,558	0	0
22	2,000	10,706	0	0
23	2,000	14,230	0	0
24	2,000	18,178	0	0
25	2,000	22,599	0	0
26	2,000	27,551	0	0
27	0	30,857	2,000	2,240
28	0	34,560	2,000	4,749
29	0	38,708	2,000	7,558
30	0	43,352	2,000	10,706
31	0	48,554	2,000	14,230
32	0	54,381	2,000	18,178
33	0	60,907	2,000	22,599
34	0	68,216	2,000	27,551
35	0	76,802	2,000	33,097
36	0	85,570	2,000	39,309
37	0	95,383	2,000	46,266
38	0	107,339	2,000	54,058
39	0	120,220	2,000	62,785
40	0	134,646	2,000	72,559
41	0	150,804	2,000	83,506
42	0	168,900	2,000	95,767
43	0	189,168	2,000	109,499
44	0	211,869	2,000	124,879
45	0	237,293	2,000	142,104
46	0	265,768	2,000	161,396
47	0	297,660	2,000	183,004
48	0	333,379	2,000	207,204
49	0	373,385	2,000	234,308
50	0	418,191	2,000	264,665
51	0	468,374	2,000	298,665
52	0	524,579	2,000	336,745
53	0	587,528	2,000	379,394
54	0	658,032	2,000	427,161
55	0	736,995	2,000	480,660
56	0	825,435	2,000	540,579
57	0	924,487	2,000	607,688
58	0	1,035,425	2,000	682,851
59	0	1,159,676	2,000	767,033
60	0	1,298,837	2,000	861,317
61	0	1,454,698	2,000	966,915
62	0	1,629,261	2,000	1,085,185
63	0	1,824,773	2,000	1,217,647
64	0	2,043,746	2,000	1,366,005
65	0	**2,288,996**	2,000	**1,532,166**

Saving only $167 a month!

Arthur invested $78,000 and NEVER caught up!

Ben invested only $16,000!

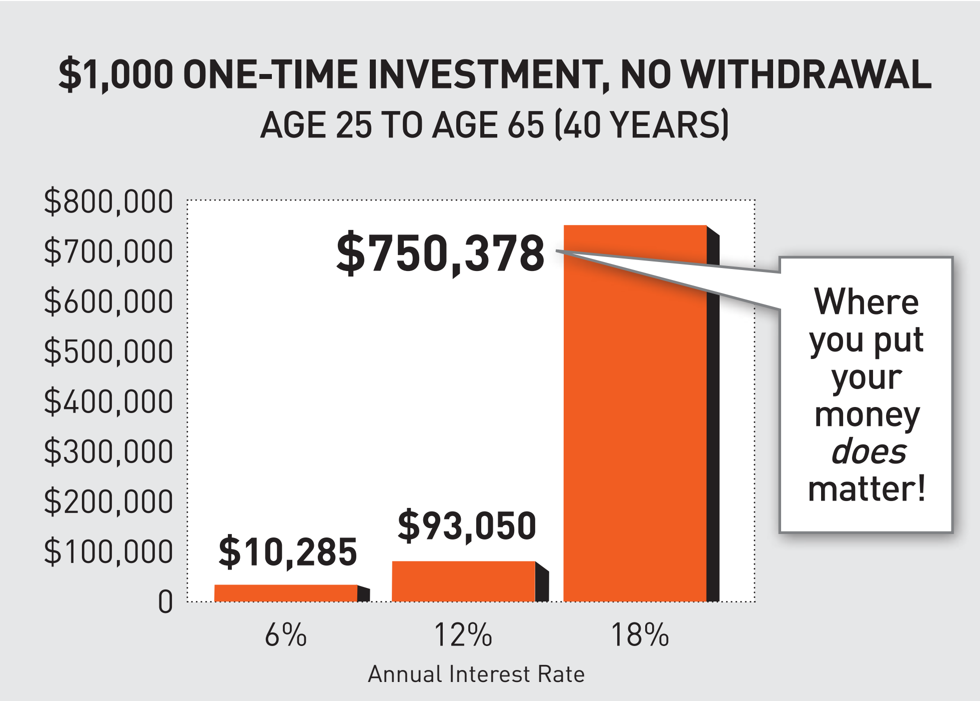
FEEDBACK

"I've read some of Dave Ramsey's stuff and learned a ton. As soon as I turned 16, I started working and have been saving money ever since. After just over a year of working, I have saved between $5,000–$6,000 to buy a car. What he says really works."

Senior, Alabama

Rate of Return, or ________________ rate, is important.

END OF VIDEO PART 4



Recap and Review

Make savings a priority. START NOW!

Compound interest works over time and the rate of return will make a difference in how large your investment grows. Remember Ben and Arthur.

An emergency fund is your backup strategy when unexpected financial events happen. Baby Step 1 is $1,000 in your emergency fund ($500 if you earn less than $20,000).

Discipline and focused emotion is the key to saving.

Use the 80/20 rule. Handling money is 80% behavior and only 20% head knowledge. Anyone can learn to save!

MONEY FACTS

81% of teens agree "it's important to me to have a lot of money in my life."

Charles Schwab survey

Only **22%** of teens say they know how to invest money to make it grow.

Charles Schwab survey

84% of teens have some money saved, with an average of $1,044.

Charles Schwab survey

1 in 4 (24%) teens agree that since they are young, saving money isn't that important.

Charles Schwab survey

CHAPTER 1: MONEY IN REVIEW

Vocabulary

Amoral
Baby Steps
Compound Interest
Emergency Fund
Interest Rate
Money Market
Murphy's Law
Pre-Authorized Checking
Priority
Sinking Fund

Matching

a. money market
b. $500/$1,000 in an emergency fund
c. 3-6 months of expenses
d. pay off debt
e. amoral
f. discipline
g. compound interest
h. Murphy's Law
i. sinking fund
j. savings account

____ 1. Saving money for a purchase and letting the interest work for you rather than against you

____ 2. Money is neither good nor bad

____ 3. Emergency Fund goes here

____ 4. Interest on interest

____ 5. If it can go wrong, it will; unexpected events

____ 6. Baby Step 1

____ 7. Baby Step 3

____ 8. Key to wealth building

Multiple Choice

9. For most people, a fully-funded emergency fund will be about:
- ☐ a. $1,000
- ☐ b. $3,000-5,000
- ☐ c. $5,000-10,000
- ☐ d. $10,000-15,000

10. Ben and Arthur illustrate which principle of saving?
- ☐ a. rule of 72
- ☐ b. compound interest
- ☐ c. simple interest
- ☐ d. none of the above

11. Baby Steps 1 and 3 have to do with:
- ☐ a. saving
- ☐ b. emergency fund
- ☐ c. getting out of debt
- ☐ d. both a and b

12. You should save for the following:
- ☐ a. emergency fund
- ☐ b. purchases
- ☐ c. wealth building
- ☐ d. all of the above

13. How many Baby Steps are there?
- ☐ a. 4
- ☐ b. 5
- ☐ c. 6
- ☐ d. 7

14. Saving is about contentment and:
- ☐ a. emotion
- ☐ b. greed
- ☐ c. having money
- ☐ d. pride

15. The following is true about PACs:
- ☐ a. stands for Personal Account Coordinator
- ☐ b. stands for Pre-Authorized Checking
- ☐ c. helps build discipline when saving
- ☐ d. both b and c

16. The saving habits of Ben and Arthur help to illustrate the principal of compound interest.
- ☐ a. true
- ☐ b. false

17. Dave's 80/20 rule says when it comes to money, 80% is head knowledge and 20% is behavior.
- ☐ a. true
- ☐ b. false

18. Your income level greatly affects your savings habits.
- ☐ a. true
- ☐ b. false

19. Interest is money paid to a saver by a financial institution.
- ☐ a. true
- ☐ b. false

20. The correct order for using your money is: pay bills, save, then give.
- ☐ a. true
- ☐ b. false

Short Answer

21. Why do you think the United States has a negative savings rate? How does this relate to your personal savings habits?

22. List the Baby Steps. Why do you think Dave skips Baby Step 2 in this lesson?

23. Explain the relationship between having an emergency fund and Murphy's Law.

24. Calculate the compound interest for each problem below:
    - $1,000 at 6% interest for three years
    - $500 at 18% interest for four years
    - $1,500 at 12% interest for two years

25. What are the three primary savings goals?

26. What changes can you make now in your own life based on what you saw in the video? How will these changes help?

27. Why do you need an emergency fund at your age?

28. Why do you need to have $1,000 in the bank before paying off debt?

29. How does compound interest differ from simple interest?

Case Studies

30. What was the most important piece of information or concept you learned from this lesson? How will you apply it to your life?

31. Jeremy has been out of school for two years, has a good job, and recently got a raise. He is excited about investing and always puts part of his check into savings. Although he has $6,500 in debt left to pay, he is making more than the minimum payments and should be debt free in 15 months. Should he continue to save or pay off his debts? Justify your answer.

32. Melissa is about to get a $200 per month raise. She wants a new television and some furniture. She has $500 in her savings account and figures with her raise she will have the cash to make her purchases easily within a few months. She also has $1,000 in available credit remaining on her credit card and is thinking about using it to buy everything now rather than waiting until she has the money. What would you tell Melissa? Justify your answer.