

Where's My Pot of Gold?



Financial literacy standards are working their way into education requirements across the country. Educating students about money is one of the best ways you can help them succeed in life. The ability to make informed and effective financial decisions is a critical 21st century skill. In this lesson, adapted from Lesson One of *The 21st Century Student's Guide to Financial Literacy - Getting Personal*, (www.c21publishing.com) students learn the differences between *income* and *wealth* and why building wealth is essential for long term financial stability and security. Happy St. Patty's Day!



Lesson Objectives

By the end of this lesson students will be able to

- Distinguish between *income* and *wealth*
- Tell why building *wealth* is important for financial stability
- Calculate a simple net worth
- Associate levels of education with income levels and the ability to build wealth

Lesson Introduction

Lucky the Leprechaun is always chasing rainbows. He believes that there's a pot of gold at the end of every rainbow, and if he could just find it he'd be rich! So far, Lucky hasn't had any luck. Like Lucky, will you forever be chasing rainbows, hoping to find your pot of gold? Relying on luck is not a good way to build wealth and financial security. What do you know about these wealth and financial security, anyway?

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Gaining Attention *Engage students in an informal survey.*

Where do you see yourself in 20 years? What will your life-style be? Will you be enjoying the perks of great financial success, or barely able to keep a roof over your head or food on the table? What are your personal financial goals? "Raise your hand if you expect to be...

- a. Crazy rich (Think Gates, Zuckerberg...)*
- b. Rich*
- c. Moderately well off*
- d. Living paycheck-to-paycheck*
- e. Flat broke, without a penny to your name*

If you expect to live an a, b or c lifestyle and avoid a life of d and e, you must become financially literate. That means you must learn how money works and how to use the money you earn to build a life of financial stability and security. One of the first steps toward being financially literate is to understand the differences between income and wealth.

What is Income?

*Income is the money you earn on a **regular basis from a job** or other income producing activity. This can be in the form of a **salary, hourly wage, tips, or commission**. For most people it simply means the money you get paid to work. Income is **regular and fairly immediate**. With a job, you get paid within a **relatively short period** of time -- usually every two weeks. **If the job ends, so do your earnings!***

In America, income is important because it determines many things about how your life plays out. Income determines the amount of taxes you pay, your lifestyle, and even impacts your health and life expectancy. Do you know Americans with high incomes live up to six years longer than poor Americans? This is called the longevity gap – and it's widening! Income dictates your level of social mobility, which is the ability to move up in social class and gain **opportunity to build wealth** for things like a nice home, a car, an education for your kids, and other quality of life items. Income is not "wealth" but it is important because it provides the **key ingredient for building wealth**.



Check for understanding: What are the characteristics of income? It is based on earnings, usually from a job; income can be hourly or salary-based; it includes tips and commissions; it is fairly immediate as with a paycheck; it is regular, but stops when the job ends; it is essential for building wealth.

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What is Wealth?

Many people think that *income* and *wealth* are the same things. Not true. Income is what you earn. Wealth is a broader and much more complex concept. Wealth is built by **transforming the income you earn into the ownership of things that hold or increase their value over time**, which are called **investments**. Income is earned; wealth is **built over time** from income. The distinctions between income and wealth are important for you to understand because different financial literacy concepts, terms, skills, and strategies apply to each.

Wealth is also referred to as **net worth**. It is the **sum of the values of all of the things you own, minus your debt**. To find their net worth, a person would add up the value of the things they own such as a home, money in a bank account, money in a retirement account, and investments like stocks or bonds -- then subtract from that sum all of their *debt*, which is money owed, such as a home loan, credit card debt, and student loan debt. That number is their *net worth*.

Check for understanding: What are some examples of income? What are examples of wealth? Imagine you earn an income of \$200,000 per year. You rent a killer apartment and stock the closet full of designer clothes. You take pricey vacations, buy tech gadgets, and eat out every night. At the end of the year, what is the value of the things you actually own? Have you built your net worth?

Why is Wealth Important?

Building wealth is ultra-important because wealth provides **long term and sustainable financial security**. Unless you build wealth, you will always be dependent on income. *That means you may always be just one disruption, such as a job loss or illness, away from having no money and no means of support.* If you want to be financially secure one day, rather than living paycheck-to-paycheck, you must build wealth. Wealth, in the form of saved or invested money, can provide the funds to buy a home, move to a better neighborhood, get a better education for your kids, and access quality of life items that we all enjoy.

How Is Wealth Built?

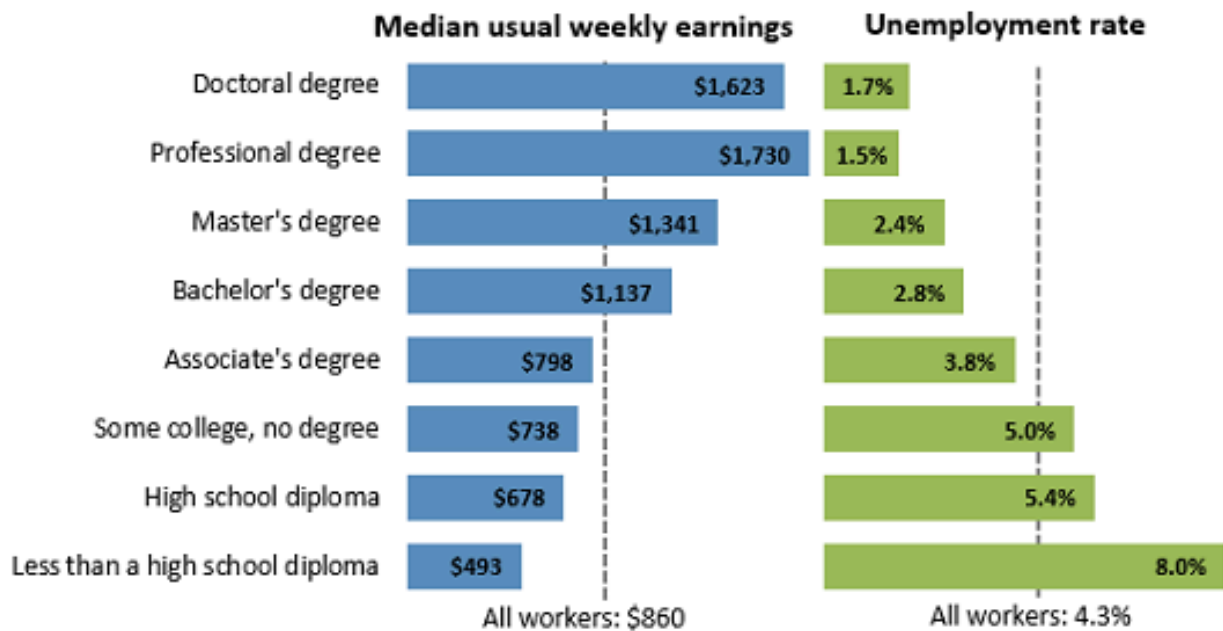
There are some essential things you need to understand about building wealth:

1. **Your Pot of Gold is Actually a Degree.** Education is the **leading factor in determining how much income people earn**. Since income is the main ingredient for building wealth, you need to get educated! The U.S. Department of Labor Bureau of Labor Statistics data prove that the higher your education, the higher your income. College graduates out-earn high school graduates by far. In 2015, the median salary of young adults with a bachelor's degree was \$59,124. The median salary of a worker with only a high school diploma was \$35,256. Woe be the poor soul who never even graduates high school: Their median

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wage was just \$25,636. Over a lifetime, a college graduate stands to make almost a million dollars more than a high school graduate. Households with higher incomes tend to have higher levels of education. Households with lower incomes tend to have lower levels of education.

Earnings and unemployment rates by educational attainment, 2015



Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.
Source: U.S. Bureau of Labor Statistics, Current Population Survey

- It's All About Management!** Earning a high income does not necessarily mean you are or will be wealthy. Conversely, earning a low income does not necessarily mean you will not be able to build wealth. Of course, earning a high income makes it easier to save money and make investments. However, someone with a relatively low income can actually become wealthier than someone with a high income. How? They manage their money better! People who become wealthy and financially secure understand the importance of good financial management. People who don't have money management skills often work their whole lives and never build wealth or improve their financial condition. **Money management is not just for rich people. It is for everyone at every income level.** Good money management skills are key to building a secure financial future.
- Your Future Second Job is Wealth-building.** The goal of a high school, college or other postsecondary education is to prepare you to enter the workforce. That's great, because having the knowledge and skills to qualify for a job is important! But you must also prepare for your job as a wealth builder. You must **get educated about money, including personal finance and money management** so that, once you are earning an income, you can actively manage your money to successfully save and invest it for your future. There's a

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lot to know about managing money! Taxes, saving, investing, retirement, insurance, credit cards, student loans .. you will eventually have to make a lot of important decisions about your money.

4. **You Can Start Learning Wealth-Building Skills Now!** As a student, you may not have much, if any, income. Nevertheless, you can start learning some wealth-building skills now. One very important skill is to develop an **awareness of and control over your financial habits**. What is your relationship with money? Are you a thrifty person? Are you capable of saving money? Do you impulse shop? Buy too many things online? By developing good financial habits, self-awareness of and discipline over your spending habits you will learn how to avoid wasting money. Learn to comparison shop to save money. Read tips on living frugally. Get a part time job, open a savings account and start saving a little money each week. Building wealth takes effort and lots of discipline. After all it's a natural human tendency to want to spend the money you earn on fun and luxury. To be happy and secure in the long run you must fight the urge for immediate material gratification and develop financial self-discipline. Start now.



Check for understanding: Can students recognize the link between education and income? What is the difference in income and job security between a high school diploma and a professional degree? What does money management mean to you? How do you manage money now? Do you understand that career skills and wealth-building skills are different? How will you get educated for your future job as a wealth-builder?



Adapted from *The 21st Century Student's Guide to Financial Literacy - Getting Personal*, by Susan Mulcaire

*18 fun and highly relevant lessons in all aspects of **personal finance and money management**. Included are employment and income, employee benefits, banking, saving, budgeting, 401K retirement plans, IRAs, credit and credit cards, taxes and withholding, insurance, homeownership, preserving and protecting wealth, and much more. Worksheets, practice activities, assessments, classroom slides, vocabulary cards and Teach-the-Teacher podcasts included.*

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Let's Practice! Answer Key Where's My Pot of Gold?

1. T **F** *Income* and *wealth* are basically the same things.
2. Which of the following are *income*?
 - a. tips
 - b. commission
 - c. salary
 - d. all of the above**
3. In the comparison chart below, write at least five characteristics of *income* and five characteristics of *wealth*.

INCOME	WEALTH
<ul style="list-style-type: none">• earned usually from a job• fairly immediate• includes salary or hourly pay, tips and commission• regular (as in a biweekly paycheck)• correlates with higher education• ends when the job ends• requires career/job skills• key ingredient for building wealth	<ul style="list-style-type: none">• refers to the ownership of things that hold or increase their value over time• built over time from income• sustainable (ie. doesn't end when a job ends)• builds long term financial security• also referred to as net worth• requires money management skills

4. Ellie, a systems analyst, earns a salary of \$50,000 per year. She has \$15,000 in investments, \$30,000 in a retirement fund and a condo worth \$175,000. She has \$100,000 in debts, including her home loan and student loans. What is her net worth? **Answer: \$120,000. (Total value of assets, minus total debt.)**
5. _____ is the leading factor in determining how much income people earn. (*Education*)
6. According to the U.S. Labor Department's Bureau of Labor Statistics, people with a _____ have the highest income and employment rates.
 - a. bachelors degree
 - b. masters degree
 - c. professional degree**
 - d. high school diploma

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7. **T F** Money management is only for rich people.

8. Rewrite this passage from the text in your own words:

Unless you build wealth, you will always be dependent on income. That means you may always be just one disruption, such as a job loss or illness, away from having no money and no means of support.

Student's discretion but the answer should indicate an awareness that income is job/ paycheck dependent, and that wealth provides long term, sustainable financial security.

9. **T F** As a student, you may not have much income, but you can start learning how to manage money, and build wealth and financial security.

10. Mara makes \$100,000 per year; Mario makes \$65,000. Is it possible for Mario to become wealthier than Mara even though he earns substantially less money? Explain your answer.

Student's discretion, but answer should indicate awareness of the importance of financial literacy and money management. Someone with a high income can have poor money management skills and build little wealth; someone with a lower income can become wealthier than because they are financially literate and manage their money better!

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Name: _____

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