

STUDENT WORKBOOK

THE 21ST CENTURY STUDENT'S GUIDE TO

FINANCIAL LITERACY

GETTING PERSONAL



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Name: _____

The Saga of Eloise and Franklin

It's all too common a story. Lots of people with astronomical salaries are flat broke as soon as they lose their job. Why? Because they did not use their earnings to build wealth. Let's observe! Read the profiles below and answer the questions that follow.



Hi. I'm Eloise. I graduated from college about ten years ago. My degree is in fashion marketing. When I graduated, I dreamed of working for a big design house in New York City. I wasn't able to land my dream job, so I moved back home to live with my parents and save money. I got a sales job at an indie store in my hometown. In my free time, I wrote a blog advising young designers how to navigate the world of fashion marketing. I built a following and I started charging a fee for my services. Eventually I got clients and started my own business. I invested most of what I earned in my company, but also managed to invest about 10% in stocks. I'm proud to say that over the years, I've built a successful small business. I pay myself \$60,000 a year and continue to invest 10% of my salary. Now I own over \$50,000 in stocks. A year ago I married Gunnar. He's a graphic artist with a degree in computer science. He works for a big video game company. He also makes \$60,000 a year and has \$50,000 in his employee retirement account. We're excited because we just bought our first house! It cost \$250,000. It has a basement apartment that we rent out to a local college student for \$400 a month. Our home loan is \$200,000. We also have car loans of about \$20,000, but hardly any credit card debt. My business is valued at about \$200,000. In 10 years, Gunnar and I want to take a year off work to travel around the world.

Franklin here. I graduated from college about 10 years ago. My degree was in very high demand. I started working for this new tech company that offered me such a sweet deal: \$100,000 a year in salary! With a high income like that, I figured I'd be rich enough to retire in about 20 years. It was so cool. The first thing I did was buy that sports car I've always wanted. I rented an apartment in an area that is a little expensive, but super hip. I like designer clothes, so I bought plenty of those. And vacations? First class all the way, baby! Right now I've got about \$30,000 in credit card debt. Five years after I started my job, I was just 28 and making \$125,000 a year! That's when I said to myself "Franklin, it's time to get serious about life and start building some wealth." Anyway, I managed to save about \$10,000 before my company merged with another tech company. A lot of employees, including me, were let go. Now I'm clipping coupons and counting change. I've run through my savings so I've moved back in with my mom. She earns barely \$16,000 per year, so it's a struggle for her to support us both. I'm job hunting, but so far — no luck.



LET'S PRACTICE

Name: _____

Answer the following questions:

1. Eloise and Franklin are about the same age. What other **personal data** do they have in common?
2. What does **building wealth** mean? What things did Eloise do to **build wealth**?
3. Between Eloise and Franklin, who had more **income**?
4. What steps did Franklin take to **build wealth**?
5. What are Eloise's and Gunnar's **assets**? (What things of value that make up their wealth?)
6. Calculate Eloise and Gunnar's approximate **net worth**.
7. What are/were Franklin's **assets**?
8. Calculate Franklin's approximate **net worth**.
9. Even if Franklin had not lost his job, would he realize his retirement dream if he continued to manage his money like this for the next 15 years? Why or why not?

LET'S PRACTICE

Name: _____

10. Recall that household income refers to the combined earnings of everyone in a household over the age of 15. What is Eloise and Gunnar's annual **household income**?

11. To what **economic class** do Eloise and Gunnar belong?

12. If Eloise and Gunnar continue their disciplined approach to building wealth, will they be able to afford that year of travel?

13. What was Franklin's **personal income** before he lost his job?

14. To what **socio-economic** class did Franklin belong before losing his job?

15. What is Franklin's **household income** when he moves back in with his mother?

16. To what **socio-economic class** does Franklin belong after losing his job?

17. What does **FPL** stand for? Are Franklin and his mother living at or below the **FPL**?

18. Based on their household income, what **government assistance programs** might Franklin and his mother be qualified for? Describe them and tell how they are abbreviated.

19. What three **financial literacy themes** is this course built around?

20. Franklin thought that because he was highly paid, he was wealthy. Explain to Franklin the **differences between income and wealth**.

LET'S PRACTICE

Name: _____

Income, Earnings, and Class in America

1. When learning a new subject, do you ever ask *"Why do I need to know this? How does this information relate to anything in my life?"* In your own words, tell at least three ways **financial literacy and money management** are relevant to your future.
2. How are earning an income and building wealth different? What are some similarities?
3. The **median income** in the U.S. is currently \$51,939. What percentage of the country makes more than this? What percentage of the country makes less than this? Explain what median income is.
4. Median incomes are also tracked by state. What is the **median income** in your state?
5. In 2014, the richest .01% of the American population owned about _____ of all of the wealth in the country.
6. The **upper class** is the smallest class, but the income range is very broad: \$200,000 to \$77 million+. What accounts for this wide range?
7. **Social mobility** refers to
 - a. a shift in population between states as measured by the U.S. census
 - b. the ability to move up in socioeconomic class and increase your wealth
 - c. federal transportation statistics
 - d. the ability to seek employment overseas
8. **I E** Someone with a relatively low income who has good financial management skills can become wealthier than someone with a high income who doesn't manage their money well.

LET'S PRACTICE

Name: _____

9. Education is a leading factor in determining how much income people earn. Can you explain how education and **wealth** are **related**?

10. Below is a graphic of the three U.S. income classes and their subclasses. Write 3-5 facts about each in the spaces indicated.



LET'S PRACTICE

Name: _____

Are You Financially Literate? Chapter 1 Quiz

1. Everything you will learn in *The 21st Century Student's Guide to Financial Literacy – Getting Personal* falls into which of the following financial literacy themes? 1 PT ____
 - a. Jobs–Economy–Retirement
 - b. Wealth–Income–Savings and Investing
 - c. Earning Income–Building Wealth–Protecting Wealth
 - d. Earning Wealth–Preserving Income–Investing Time

2. Reflect on the following statement: “Income is earned, but wealth is built.” Briefly state the difference between income and wealth. 2 PTS ____

3. I E The strongest determinant of income and class is education. 1 PT ____
4. I E Households with higher income tend to have lower levels of education. 1 PT ____
5. List two reasons why it is necessary to build wealth in order to be financially secure, even if you have a high income. 2 PTS ____

6. Which of the following is NOT true about income distribution in the U.S.: 1 PT ____
 - a. The lifestyle quality associated with different income levels is different in various areas of the country
 - b. The Super Rich own 3% of all wealth in the country
 - c. Over 45 million people in the United States live beneath the Federal Poverty Line
 - d. Income of \$100,000–\$200,000 qualifies for “Upper Middle Class Status”
7. Tell whether each of the following would qualify as wealth or as income. Explain your answer.
 - a. Josh earns \$20 per hour working at a car dealership. 1 PT ____

LET'S PRACTICE

Name: _____

- b. Olga keeps at least \$5000 in her savings account at all times. 1 PT ____
- c. Chris made \$200 in tips last Saturday waiting tables at the restaurant where he works. 1 PT ____
- d. Aurelio's uncle gave him \$100 for his birthday, and Aurelio used it to purchase stock in a public company. 1 PT ____
8. Which of the following is NOT a form of Federal Assistance for households with low income? 1 PT ____
- a. Supplemental Nutrition Assistance Program
 - b. Children's Health Insurance Program
 - c. American Basic Income Supplement
 - d. Head Start
9. In your own words, offer at least three reasons why building wealth can be difficult. 3 PTS ____
10. I E If your income is below the median income, you could be in the upper middle class. 1 PT ____
11. List three different sources of income. 3 PTS ____
12. Federal assistance programs assist low-income households with all of the following EXCEPT: 1 PT ____
- a. education
 - b. wealth-building
 - c. health insurance
 - d. home energy and electricity

LET'S PRACTICE

Name: _____

13. List 2 reasons why it is useful for the government to collect data on the income levels of Americans. 2 PTS ____

14. Financial literacy _____ 1 PT ____

- a. has both personal and global aspects.
- b. is something only trained professionals develop.
- c. is pointless without a high income.
- d. is different depending on what job you have.

15. Roger has a high income, but net worth of just \$5000. Regina has a moderate income, but net worth of \$150,000. Neither have sources of income other than their jobs. What might account for the differences in wealth? 2 PTS ____

16. Charles makes \$35,000 per year as a transportation supervisor coordinating the deliveries of goods and maintenance of trucks for large trucking company in Iowa. His wife, Charlene, makes \$41,000 as an agricultural inspector. They have a total of \$105,000 in their retirement accounts. They own a small home valued at about \$125,000. They have \$5000 in a savings account, \$1500 in credit card debt and a home loan of \$60,000. What is their net worth? (Explain your answer.) 4 PTS ____

17. Which of the following choices is NOT an example of a wealth building strategy? 1 PT ____

- a. applying for a job with higher pay
- b. moving to a less expensive apartment and investing the savings
- c. purchasing real estate
- d. playing the lottery

LET'S PRACTICE

Name: _____

18. You may not realize it, but you are already engaged in the quest for personal financial security and stability. Early steps include: 1 PT ____
- a. getting a good education
 - b. becoming financially literate
 - c. understanding the differences between income and wealth
 - d. all of the above
19. I E All low income households have incomes beneath the Federal Poverty Line. 1 PT ____
20. Reflect on your age and current status as a student. Give an example of something you can do while you are in school to earn income; then tell about your postsecondary (after high school) education plan and how it is related to your future ability to build wealth. 3 PTS ____

SCORE: ____ / 36 PTS